

**Target Energy Limited**

**TEX**

**Monday, 22 October 2007**

**Three out of four ain't bad**

**Recommendation Speculative Buy**

**Overview**

TEX is participating in the drilling of Snapper A2 (25%) in the Section 28 Field, St Martin Parish, Louisiana. Drilling of the well is about to commence and is targeting a potential 1 million barrels of oil (mmbo) and 1.45 billion cubic feet (bcf) of gas. Should the well be successful it has a potential value of \$0.15 per TEX share. The well follows on from the successful Snapper A1 (25%) well that the company participated in earlier in the year. That well outlined recoverable volumes of 0.61 mmbo and 2.25 bcf of gas and is now in production at a current rate of 1.3 mmcf of gas and 5 barrels of condensate per day. Snapper A1 intersected approximately 11.9 metres of potential pay in four separate zones. The well is currently producing only from the deepest of the four zones.

Since listing in November 2006, TEX has participated in the drilling of four wells. Three have been successful and are now in production outputting a combined 1,860 mcf of gas and 5 barrels of condensate per day. This equates to monthly cash flow of around \$70,000 to the company based on its 25% interests.

In addition to Snapper A1 in Louisiana, the company participated in the drilling of three wells in Colorado County, Texas. The first, Kant (25%), encountered sub-economic gas shows and was subsequently plugged and abandoned. The next well, Thoroughbred (25%), encountered gas charged sands at a depth of around 1,300 metres and is now producing at the rate of 300 mcf of gas per day. Following the drilling of Snapper A1, the company participated in the drilling of a third well in Texas. Garwood (25%) encountered a number of gas charged sands of which the lowest has been completed and is currently producing at the rate of 260 mcf of gas per day.

TEX has focused on established areas in the United States that have a high level of activity. Texas and Louisiana, the initial operating areas of the company, are well established petroleum provinces that consistently yield new discoveries. Due to the pervasive infrastructure, the discoveries that TEX has participated in have been quickly brought into production to feed a strong gas market, which has gas prices substantially higher than those in Australia. TEX has chosen what it believes is the best available prospects that were available from reputable operators with a demonstrated track record of success. All of the prospects that the company has selected are mapped on 3D seismic and are close to existing infrastructure.

In addition to Snapper A2, TEX plans to participate in the drilling of a further five wells in Louisiana before the end of 2007. Three of these: Bayou Berard (15%), Parks North (10%) and Snapper A3 (25%) are on the flanks of the same salt dome that produced the structural trap upon which Snapper A1 was targeted. These three wells are targeting potential combined recoverable volumes of up to 2.65 mmbo and 30.42 bcf of gas.

The remaining two wells will be drilled in Acadia Parish by operator Aspect Energy who has participated in over 300 wells, with a success rate of 61%. Teche (10%) is targeting between 11.3 bcf (P50) and 22.4 bcf (P10) of gas and Bandito (15%) is targeting between 20.3 bcf (P50) and 42.3 bcf (P10) of gas.

All up, the six wells to be drilled before the end of 2007 are targeting up to 3.65 mmbo and condensate and 97 bcf of gas equivalent. The potential upper net value of these wells, if successful, on a cents per TEX share basis are: Snapper A2 (\$0.15), Teche (\$0.12), Bandito (\$0.23), Bayou Berard (\$0.15), Parks North (\$0.14) and Snapper A3 (\$0.15).

The company maintains an option to participate in the drilling of the Berwyn (10%) well in Assumption Parish, Louisiana. The well is targeted at potential recoverable volumes of up to 272 bcf of gas and 5.44 million barrels of condensate which collectively represent 305 bcf equivalent of gas. It is proposed that the well be drilled from a barge mounted rig in Lake Verret where water depth is approximately 1.8 metres deep. The partners are currently attempting to reduce anticipated drilling costs before committing to a commencement date. A success at the upper level of potential would represent net value per TEX share of \$1.63.

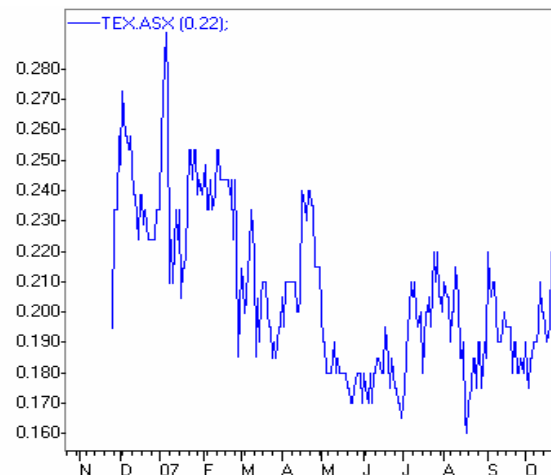
**Snapshot**

Last Price	\$0.22
Market Cap (m)	\$15.0
52 Week High	\$0.293
52 Week Low	\$0.155
Sector	Energy

**Investment Fundamentals**

Cash reserves	\$5.2 million
Shares on issue	68.0 million
Options on issue	34 million 25 cent listed 6 million 20 cent escrowed
Directors	Didier Murcia (Chairman) Laurence Roe (Managing) Michael Martin (non-exec) Paul Lloyd (non-exec)
Major shareholders	Laurence Roe 7.35%

**Price Chart**



**Business Description**

TEX is currently focused on building a hydrocarbon production base and cash flow from prospects in Louisiana and Texas. The company aims to balance low and medium risk drilling, designed to build a revenue base, with higher risk and higher impact drilling that has the potential to add significant value. The company is actively targeting expansion of its interests to include further states in the United States and also other countries.

Analyst: Paul Goody

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*Prepared by Paul Gooday*

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