

Target Energy Limited

Report for the Quarter Ending 31 December 2008

Key Events

- *Production at Pine Pasture #2 (East Chalkley) continues at approx 120 BOPD.*
- *Production from Snapper wells averages 2.4 mmcfgd plus 9 BOPD during quarter.*
- *Plans advance for ongoing drilling.*
- *Approx \$4.8 million in bank – with repatriated funds will increase to approx \$5.24 million - a cash backing equivalent to 5 cents per share.*

1. Production

Period: 1 October – 31 December 2008

Well	TEX WI	Ave Daily Gas Prodn in Period (mcfgd)	Gross Gas Prodn in Period (mmcf)	Gross Gas Prodn to date (mmcf)	Gross Ave Daily Oil Prodn in Period (BOPD)	Total Oil Prodn in Period (BO)	Total Oil to date (BO)
Thoroughbred*	25%	-	-	81.2	-	-	-
Snapper A-1	25%	1,114	102.5	603.4	2.3	213	2,633
Garwood	25%	58	4.7	57.1	-	-	-
Snapper A-2	25%	1,285	118.2	316.1	7.1	651	2,290
Beyt #1^	15%	-	-	40.8	-	-	1,534
Pine Pasture #2^^	25%	-	-	-	108.0	7,340	9,161
Total (Gross)			225.3	1098.6		8,204	15,618
Total (Net TEX)			56.3	270.6		2,051	3,751

* Well now plugged and abandoned. / ^ Well shut-in 21 July, 2008 / ^^Production interrupted by weather.

mmcfgd = million of cubic feet of gas per day; mcfgd = thousand cubic feet of gas per day; BOPD = barrels of oil per day

2. Exploration

2.1. Louisiana

2.1.1. St Martin Parish

- **Snapper A-3 (Target Energy 25% working interest)**

Operated by Cypress Productions of Azle, Texas, the Snapper A-3 well is to be located approximately 122 metres north of Target's Snapper A-1 discovery in St Martin Parish, Louisiana. The well is designed to test Hackberry A3 and A4 sands that

were not intersected by the A-1 well. Target will earn a 25% working interest in the well, which will be drilled to a depth of approximately 3,048 metres.

Snapper A-3 will test a potential of up to 700,000 barrels of oil and 4 billion cubic feet of gas (unrisked, recoverable).

Crown Drilling have been contracted to supply the rig. Delays in resolving unitisation issues prevented the commencement of drilling in the planned December/Jan period. At this time the operator has advised that it expects to utilise a late-February drilling slot.

- **Bayou Berard Marg Tex (Target Energy 15% working interest)**

The Beyt #1 well at the Bayou Berard prospect intersected a major fault just before hitting the primary Marg Tex targets and was subsequently completed in the shallower Marg Vag sand.

Production commenced on 2 May 2008 at a rate of approx 1 mmcfgd with associated condensate. The operator later decided to put the well on compression. Shortly after the Beyt #1 well was placed on a compressor (July 20th), the wellbore loaded up with fluid. A wire line was run which tagged fluid at approximately 2100 feet. Analysis of the fluid indicated formation water - believed to be from the Het Lime at 9370 feet, 130 feet up the hole from the Marg Vag sand.

Rather than remediate the Marg Vag, Cypress have decided to terminate production from that sand and instead plan to drill out from the existing wellbore to intersect the Marg Tex sands. The 1st, 2nd and 3rd Marg Tex sands have an aggregate potential of 1 million barrels of oil with 0.4 billion cubic feet of gas of gas (unrisked, recoverable).

The operator has advised that drilling at the Beyt #1A well is expected to commence in early third-quarter.

3. Development

3.1. Cameron Parish

3.1.1. East Chalkley (Target Energy 25% working interest)

Operated by Centurion Exploration Company of Houston Texas, the East Chalkley project is an oil field appraisal and development program, approximately 33 kilometres southeast of the town of Lake Charles in Cameron Parish, Louisiana. The oil accumulation, on the east flank of the Chalkley Field, is a previously unidentified down-dip oil leg associated with the gas field. The structure is mapped on 3D seismic and is already producing oil from a single well. Work to date suggests that the 'most likely' recoverable volume of oil is approximately 2.4 million barrels.

Production was interrupted by hurricanes Gustav and Ike and re-commenced in late October 2008. Production has stabilized at around 120 BOPD with 440 BWPD. This level of production is optimal with the existing pumping equipment.

The partners are presently discussing ongoing appraisal drilling as well as the drilling of a salt-water disposal well to expedite disposal of the produced water.

4. Reserves

4.1. St Martin Parish

An independent reserves study of the SML (Snapper) A1 and A2 wells was undertaken for Target Energy by Harper & Associates, Inc of Fort Worth, Texas.

The study assigned the following aggregate Estimated Ultimate Recoveries (EUR) to the wells:

	Gas (Bcf)	Oil (KBO)
Proved	3.95	423.2
Probable	1.37	41.9
Possible	0.72	31.3
Total 3P (EUR)	6.04	496.4
Produced to 31/12/08	0.92	4.9
Remaining 3P Reserves	5.12	491.5
Target's Interest (25% WI)	1.28 Bcf	122.9 KBO

4.2. Cameron Parish

Work prior to the drilling of Pine Pasture #2 suggested that the 'most likely' recoverable volume of oil at East Chalkley is approximately 2.4 million barrels. Target Energy's interest (25% WI) in such a volume would be 600,000 barrels. The well has performed in line with expectations and the "most likely" estimate remains unchanged at this time.

An update of the reserves at East Chalkley - incorporating the results of the Pine Pasture #2 well drilling and subsequent flow testing - is presently being undertaken for the Operator.

5. Current Indicative Drilling Schedule

Estimated Timing	Prospect	Location	Target [^] Working Interest	Potential Recoverable Volumes*
Ongoing development	East Chalkley	Cameron Parish, La	25%	2.4 mmBO
Q1 2009	Snapper A-3	St Martin Parish, La	25%	0.7 mmBO; 4.0 Bcf
Q3 2009	Bayou Berard ST	St Martin Parish, La	15%	1 mmBO; 0.44 Bcf

**Figures are operators' unrisks estimates and represent total prospect or field potential – additional drilling may be required to fully recover volumes. [^]Subject to finalisation of farm-in and/or unitisation agreements*

6. Corporate

Subsequent to this reporting period, on 16 January 2009, Target Energy advised the market that it had withdrawn from Participation Agreements covering the Catapult 3 and Parks North prospects due to lengthy ongoing delays and uncertainty over the commencement of drilling and the capacity of other project partners to secure requisite funding to drill these projects.

The Company was enthusiastic about both prospects and had been ready to see them drilled for some time. However with the market uncertainty and softening commodity prices, the respective operators were not able to advise when these wells would actually drill and in fact were still trying to get confirmation that other partners had the funding in place to commit to the relevant projects. This ongoing uncertainty was problematic as it potentially shackled the Company to projects with now indeterminate timing.

The board took the view that in this situation it is best for Target to regain control. By formally withdrawing from the projects, existing investments in these prospects are returned and the Company can then look at redeploying these funds (along with those already allocated to those wells) to new projects that will drill in the shorter term. However, this does not mean Target will not participate in these wells when they do proceed - when the operators can advise us that there is a firm drilling timetable or rig contract for either Catapult 3 or Parks North and that their funding is in place, we will review our position at that time.

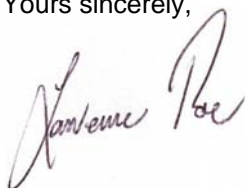
At the end of this reporting period, your Company had approximately \$4.8 million cash in the bank. A further (approx) \$435,000 is to be repatriated as a result of the above-mentioned withdrawals, increasing our funds to approx \$5.24 million – equivalent to 5 cents per share.

With cash in the bank, production revenue and reserves in the ground, your Company is well placed to move forward.

Target is now assessing prospects and projects that can reasonably be expected to provide drilling activity in the short-medium term and is also reviewing production opportunities. Having available cash will allow us to take advantage of suitable opportunities that may arise as other companies dispose of various producing assets.

For further information, please contact Laurence Roe on 08 9476 9000 or contact the company at admin@targetenergy.com.au.

Yours sincerely,



Laurence Roe
Managing Director

NOTE: In accordance with ASX Listing Rules, any hydrocarbon reserves and/or drilling update information in this report has been reviewed and signed off by Mr Laurence Roe, B Sc, Managing Director of Target Energy, who is a member of the Society of Exploration Geophysicists and has over 25 years experience in the sector. He consents to that information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Target Energy Limited

ABN

73 119 160 360

Quarter ended ("current quarter")

31 December 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	619	1,110
1.2 Payments for		
(a) exploration and evaluation	(922)	(1,683)
(b) development	(41)	(131)
(c) production	(72)	(157)
(d) administration	(299)	(636)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	42	103
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(673)	(1,394)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	(36)	(65)
1.11 Loans repaid by other entities	48	75
1.12 Other (provide details if material)	-	-
Net investing cash flows	12	10
1.13 Total operating and investing cash flows (carried forward)	(661)	(1,384)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(661)	(1,384)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	3,391
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – share issue expenses	-	(239)
	Net financing cash flows	-	3,152
	Net increase (decrease) in cash held	(661)	1,768
1.20	Cash at beginning of quarter/year to date	5,030	2,480
1.21	Exchange rate adjustments to item 1.20	418	539
1.22	Cash at end of quarter	4,787	4,787

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000
1.2 Aggregate amount of payments to the parties included in item 1.2	108
1.2 Aggregate amount of loans to the parties included in item 1.10	-

1.2 Explanation necessary for an understanding of the transactions

Directors' fees and salaries.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not Applicable

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not Applicable

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,538
4.2 Development	-
Total	1,538

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	4,737	4,980
5.2 Deposits at call	50	50
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	4,787	5,030

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
6.2		Interests in mining tenements acquired or increased		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	104,321,170	104,321,170		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	3	3		
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and Conversion factor)</i>	<i>Incentive Options</i> 6,000,000 1:1 62,812,164 1:1 500,000 1:1	Nil 62,812,164 Nil	<i>Exercise price</i> 20 cents 25 cents 12 cents	<i>Expiry date</i> 30/06/2011 26/11/2009 7/8/2011
7.8 Issued during quarter				
7.9 Exercised during quarter	3	3	25 cents	26/11/2009
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

Compliance statement

+ See chapter 19 for defined terms.

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: _____
(Company Secretary)

Date: 29 January 2009

Print name: Rowan Caren

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

== == == == ==