

Quarterly Report

for the Quarter Ending 31 December 2006

1. Highlights

- Target Energy Limited ("Target") completed a successful Initial Public Offering in November 2006, raising A\$10 million.
- Target was admitted to the Australian Stock Exchange on 27 November 2006, with the code "TEX".
- Target's initial work program includes participation in the drilling of eight wells in Texas and Louisiana.
- Target participated in its first well, Kant No.1, approximately one month after listing. The well commenced drilling in December 2006 and was plugged and abandoned after failing to intersect hydrocarbons in commercial quantities.

2. Exploration

Texas

- **Kant No. 1 (Target Energy 25% working interest)**

The Kant No. 1 well is located in Colorado County, Texas, approximately 70 miles west of Houston. Operated by Everest Resource Company of Corpus Christi, the well commenced drilling on 29 December, 2006 and reached its programmed Total Depth of 1,448 metres on 6 January, 2007.

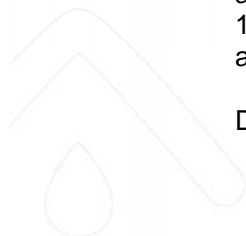
Wireline logs were then run in the well and while preliminary evaluation of the logs suggested the presence of hydrocarbon bearing reservoir sands in the well, the relevant sands were thin and were judged by the partners to not be capable of yielding economic reserves. Accordingly the decision was taken to plug and abandon the well.

- **Thoroughbred prospect (Target Energy 25% working interest)**

The Thoroughbred prospect is located in Colorado County, Texas, approximately 70 miles west of Houston and is operated by Everest Resource Company of Corpus Christi. The well is programmed to be drilled to 1,448m (4,750 ft); Target will earn a 25% working interest in the well and lease to a depth of 1,524 metres (5,000 ft).

Thoroughbred is an Oligocene Frio sandstone target which has been identified on 3D, with the primary target at a depth of 1,250 metres (4,100 ft). The objective sandstone reservoir is represented by a "bright" seismic amplitude anomaly, which is mapped with an areal closure of 56 acres and the upside gas reserve potential is considered to be 1.34 billion cubic feet (Bcf). The Thoroughbred location is also considered to possess additional Frio and Miocene sandstone gas potential.

Drilling at Thoroughbred No. 1 is expected to commence in early February 2007.



- **Garwood Frio prospect (Target Energy 25% working interest)**

Located 1.7 km west of the Thoroughbred prospect in Colorado County, Texas, the Garwood Frio prospect will test an Oligocene Frio objective at approximately 1,250 metres (4,100 ft). The well is programmed to be drilled to 1,448m (4,750 ft); Target will earn a 25% working interest in the well and lease to a depth of 1,524 metres (5,000 ft).

The objective sandstone reservoir is represented by a “bright” seismic amplitude anomaly, which is mapped with an upside gas reserve potential of up to 3 billion cubic feet of recoverable gas. It also has potential for additional gas from a secondary (Miocene) objective.

Drilling at Garwood Frio is expected to commence in mid February 2007.

Louisiana

St Martin Parish

- **Snapper A-1, A-2 (Target Energy up to 25% working interest)**

Operated by Cypress Drilling of Azle, Texas, Snapper A-1 and A-2 are two oil and gas prospects on the north-eastern flank of the Section 28 salt-dome, approximately 25 km east of Lafayette. The two wells will test an aggregate potential of up to 1.9 million barrels of oil and 5.1 billion cubic feet of gas (unrisked, recoverable) in separate fault blocks. The wells can be brought on-stream approximately two months after completion.

Snapper A-1 will target tested and interpreted bypassed gas pay from the Hackberry A-1 and A-2 Sands, as well as attic oil updip to proven production. These high quality sands are prolific producers of oil and/or gas; the well will be drilled to approximately 3,050 metres (10,000 ft).

Snapper A-2 will test updip attic oil from watered-out pay in the Hackberry A-4 Sand and updip of non-commercial oil in the Hackberry A-6 Sand, as well as possible gas from the Hackberry A-1 and possible oil from the 3rd Marg Tex Sands. The Hackberry A-4 is described by the operator as a PUD target. Prognosed total depth is 3,017 metres (9,900 ft).

Drilling at Snapper A1 is expected to commence in mid March 2007, with Snapper A2 to be drilled immediately after (around mid April 2007).

- **Bayou Berard (Target Energy up to 15% working interest)**

Also operated by Cypress Drilling LLC of Azle, Texas, this well will test sands in the Marg Tex section in an as yet undrilled fault segment on the south-eastern margin of the Section 28 salt dome. Various Marg Tex sands have produced commercial oil and/or gas in every fault segment tested at Section 28. The Bayou Berard well will potentially prove up 1.8 million barrels of oil and 0.72 billion cubic feet of gas (recoverable). The well will be drilled to 3,444 metres (11,300 ft). A second well will be required to fully drain these reserves.

Drilling at Bayou Berard is expected to commence immediately after the Snapper wells (around mid May 2007).

- **Parks North (Target Energy up to 10% working interest)**

Located south-west of the Section 28 salt-dome, the proposed well at the Parks North prospect will test a proven fault segment. The main objective is the Hackberry “A5” Sand, a channel-like amplitude anomaly updip of shows. The secondary objective is a Hackberry “A4” amplitude anomaly with associated underlying velocity sag. A third objective with excellent reserve potential is the Hackberry “A3” Sand that has high amplitudes and a positive AVO (Amplitude vs. Offset) anomaly for gas. All three objectives are trapped against the upthrown side of a contemporary fault. All three objectives will be tested. Total unrisks potential reserves are 25.7 BCF and 150,000 BO. Parks North could be brought on-stream within 4 months after completion. Programmed total depth is 4,236 metres (13,900 ft).

Drilling is expected to commence at Parks North in mid June 2007.

Assumption Parish

- **Berwyn (Target Energy 10% working interest)**

The proposed deep gas exploration well (4,815 metres/15,800 ft) at the Berwyn prospect in Assumption Parish will test Miocene Planulina sands. The prospect has potential of up to 305 Bcfe gas recoverable and is defined by 3D seismic below the shallower Pierre Pass field (68 Bcf) and within 2 kilometres of the 155 Bcf Bayou St Vincent field, which produced from the same sands. The prospect has possible stacked pays. There is substantial infrastructure in area – the operator, Pogo Producing Company of Houston, Texas, considers that a discovery at Berwyn can be brought on-stream in approximately two months.

Drilling at Berwyn is presently scheduled to commence in June or July of 2007.

3. Current Indicative Drilling Schedule

Estimated Timing	Prospect	Location	Target^ Working Interest	Potential Recoverable Reserves*
29 Dec 2006	Kant	Colorado Co, Texas	25%	Total Depth 6 Jan 07; P & A
Early Feb	Thoroughbred	Colorado Co, Texas	25%	1.34 BCF
Mid Feb	Garwood Frio	Colorado Co, Texas	25%	3 BCF
Mid March	Snapper A-1	St Martins Parish, Louisiana	25%	0.45 MMBO; 4.2 BCF
Mid April	Snapper A-2	St Martins Parish, La	25%	1.49 MMBO; 0.9 BCF
Mid May	Bayou Berard	St Martins Parish, La	15%	1.800 MMBO; 0.72 BCF
Mid June	Parks North	St Martins Parish, La	10%	0.150 MMBC; 25.7 BCF
June/July 07	Berwyn	Assumption Parish, La	10%	305 BCFe

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

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Laurence Roe', written in a cursive style.

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 at least 5 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 2006

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	-	-
1.2	Payments for		
	(a) exploration and evaluation	(356)	(489)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(318)	(383)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	42	43
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	(632)	(829)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(37)	(37)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	Net investing cash flows	(37)	(37)
1.13	Total operating and investing cash flows (carried forward)	(669)	(866)

1.13	Total operating and investing cash flows (brought forward)	(669)	(866)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	10,062	10,363
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	(911)	(927)
	Net financing cash flows	9,151	9,436
	Net increase (decrease) in cash held	8,482	8,570
1.20	Cash at beginning of quarter/year to date	138	50
1.21	Exchange rate adjustments to item 1.20	(20)	(20)
1.22	Cash at end of quarter	8,600	8,600

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 3	Aggregate amount of payments to the parties included in item 1.2	133
1.2 4	Aggregate amount of loans to the parties included in item 1.10	-

1.2
5 Explanation necessary for an understanding of the transactions

Consulting 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

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	1,040
4.2 Development	-
Total	1,040

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	8,600	138
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	8,600	138

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			

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 (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities	68,000,000	52,187,500		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	52,500,000	50,312,500		
7.5	*Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options (description and Conversion factor)	<i>Incentive Options</i> 6,000,000 1:1	 Nil	<i>Exercise price</i> 20 cents	<i>Expiry date</i> 30/06/2011
7.8	Issued during quarter				

7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures (totals only)				

Compliance statement

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: _____ Date: 30 January 2007
(Company Secretary)

Print name: Paul Lloyd

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.

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