

Target Energy Limited

(ABN 73 119 160 360)

Half Year Report

31 December 2009



Contents	Page
Directors' Report	1
Condensed Statement of Comprehensive Income	3
Condensed Statement of Financial Position	4
Condensed Statement of Changes in Equity	5
Condensed Statement of Cash Flows	6
Notes to the Financial Statements	7
Directors' Declaration	13
Independent Auditor's Review Report and Independence Declaration	14

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year to 31 December 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Christopher Rowe	Chairman (Appointed 1 January 2010)
Didier Murcia	Chairman (Resigned 31 December 2009)
Laurence Roe	Managing Director
Michael Martin	Non-Executive Director
Paul Lloyd	Non-Executive Director
Gerry McGann	Non-Executive Director (Appointed 21 July 2009, Resigned 19 November 2009)

Review of Operations

The consolidated entity incurred a net loss after tax of \$589,360 during the half-year to 31 December 2009 (2008: \$764,600)

The principal activities of the consolidated entity during the half year were the production of and exploration for oil and gas in the USA. The directors have focused the consolidated entity's operation on the USA gulf states of Texas and Louisiana but will continue to review all oil and gas opportunities.

Revenue for the period was impacted by a combination of a lower price for gas production and a shut in of the Snapper A-2 well whilst a pump was installed for oil production. The Snapper A-2 well is now back on line.

Events after the Balance Sheet Date

There has not arisen in the interval between the end of the half year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future periods.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report.

This Independence Declaration is attached to the Independent Auditor's Review Report and forms part of this directors' report for the half-year ended 31 December 2009.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306 (3) of the Corporations Act 2001.



Laurence Roe

Director

Dated this 16th day of March 2010

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

	Note	Consolidated	
		31-Dec	31-Dec
		2009	2008
		\$	\$
Revenue		480,295	1,154,033
Foreign exchange gain		-	295,779
Other income		3,156	79
Oil and gas production expenses & taxes		(176,990)	(102,705)
Accounting & secretarial expense		(54,473)	(60,939)
Audit fees		(16,205)	(14,560)
Consultants		(124,150)	(109,560)
Directors Fees		(27,500)	(15,833)
Amortisation		(164,807)	(221,826)
Depreciation expense		(3,630)	(13,102)
Employee benefits expense		(241,674)	(205,156)
Exploration costs		-	(1,228,794)
Foreign exchange loss		(32,461)	-
Insurance		(13,102)	(12,225)
Legal expenses		(68,915)	(2,329)
ASX fees		(19,330)	(44,181)
Office expense		(42,716)	(53,052)
Option issue expense		-	(14,700)
Promotions and advertising		(3,437)	(2,556)
Share registry expense		(18,851)	(25,239)
Travel and accommodation		(24,312)	(64,704)
Other expenses		(40,258)	(23,030)
Loss before income tax expense	2	(589,360)	(764,600)
Income tax expense		-	-
Net loss after tax		(589,360)	(764,600)
Other comprehensive (loss) / income			
Foreign currency translation difference for foreign operations		(654,316)	1,777,901
Total comprehensive (loss) / income for the period		(1,243,676)	1,013,301
Loss attributable to owners of Target Energy Ltd		(589,360)	(764,600)
Total comprehensive (loss) / income attributable to owners of Target Energy Ltd		(1,243,676)	1,013,301
Basic and diluted loss per share (cents per share)		(0.48)	(0.75)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

		Consolidated	
	Note	31-Dec 2009 \$	30-Jun 2009 \$
CURRENT ASSETS			
Cash and cash equivalents		1,904,055	2,599,641
Trade and other receivables		210,134	257,265
Other financial assets		50,000	50,000
Total Current Assets		2,164,189	2,906,906
NON-CURRENT ASSETS			
Property, plant & equipment	3	4,713,478	4,368,445
Deferred exploration, evaluation and development expenditure	4	3,162,490	1,072,088
Total Non-Current Assets		7,875,968	5,440,533
TOTAL ASSETS		10,040,157	8,347,439
CURRENT LIABILITIES			
Trade and other payables		594,624	304,046
Total Current Liabilities		594,624	304,046
TOTAL LIABILITIES		594,624	304,046
NET ASSETS		9,445,533	8,043,393
EQUITY			
Issued capital	5	17,511,574	14,865,758
Reserves		(79,911)	574,405
Accumulated losses		(7,986,130)	(7,396,770)
TOTAL EQUITY		9,445,533	8,043,393

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**

Consolidated	Issued Capital	Accumulated Losses	Option Reserve	Share Based Payments Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2008	11,713,596	(5,262,195)	340,000	201,140	(740,310)	6,252,231
Shares issued during the period	3,391,167	-	-	-	-	3,391,167
Options issued during the period	-	-	-	14,700	-	14,700
Transaction costs	(239,005)	-	-	-	-	(239,005)
Loss attributable to members of the parent entity	-	(764,600)	-	-	-	(764,600)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	1,777,901	1,777,901
Balance at 31 December 2008	14,865,758	(6,026,795)	340,000	215,840	1,037,591	10,432,394
Balance at 1 July 2009	14,865,758	(7,396,770)	340,000	216,315	18,090	8,043,393
Shares issued during the period	2,914,246	-	-	-	-	2,914,246
Options issued during the period	-	-	-	-	-	-
Transaction costs	(268,430)	-	-	-	-	(268,430)
Loss attributable to members of the parent entity	-	(589,360)	-	-	-	(589,360)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(654,316)	(654,316)
Balance at 31 December 2009	17,511,574	(7,986,130)	340,000	216,315	(636,226)	9,445,533

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

	Consolidated	
	31-Dec	31-Dec
	2009	2008
	\$	\$
	Inflows/(Outflows)	
Cash Flows from Operating Activities		
Receipts from customers	495,991	1,073,790
Payments to suppliers and employees	(839,603)	(776,431)
Interest received	19,867	103,118
	<hr/>	<hr/>
Net cash (used in)/provided by operating activities	(323,745)	400,477
	<hr/>	<hr/>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(674,468)	-
Exploration and development expenditure	(2,310,728)	(1,531,254)
	<hr/>	<hr/>
Net cash used in investing activities	(2,985,196)	(1,531,254)
	<hr/>	<hr/>
Cash Flows from Financing Activities		
Proceeds from issue of shares	2,914,246	3,380,937
Share issue expenses	(268,430)	(239,005)
	<hr/>	<hr/>
Net cash provided by financing activities	2,645,816	3,141,932
	<hr/>	<hr/>
Net (decrease)/increase in cash held	(663,125)	2,011,155
Cash at the beginning of the financial period	2,599,641	2,430,146
Effect of exchange rate changes on the balance of cash held in foreign currencies	(32,461)	295,779
	<hr/>	<hr/>
Cash at the end of the financial period	1,904,055	4,737,080

The accompanying notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting, and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the company as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2009 and any public announcements made by Target Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

In the half-year ended 31 December 2009, the company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2009. The following accounting policies have been affected.

Principles of Consolidation

AASB 127 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the group.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must be remeasured to fair value and a gain or loss is recognised in profit or loss. This is consistent with the entity's previous accounting policy if significant influence is not retained.

The Group will in future allocate losses to the non-controlling interest in its subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the entity's previous policy, these dividends would have been deducted from the cost of the investment.

The changes were implemented prospectively from 1 July 2009. There has been no impact on the current period as none of the non-controlling interests have a deficit balance. There have also been no transactions whereby an interest in an entity is retained after the loss of control of that entity, no transactions with non-controlling interests and no dividends paid out of pre-acquisition profits.

Business Combinations

All payments to purchase a business are now recorded at fair value at the acquisition date, with contingent payments included at their respective fair values. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of the acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net assets.

If the Group recognises acquired deferred tax assets after the initial recognition accounting there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

Segment Reporting

The Group/Company has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Target Energy Ltd. The Group operates only in one business and geographical segment being predominantly in the area of oil and gas exploration and production in the United States of America.

The Group has also reviewed all new standard and interpretations that have been issued but are not yet effective for the half year ended 31 December 2009. As a result of this the Directors have determined that there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and, therefore, no change is necessary to the Group's accounting policies.

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

The following revenue and expense items are relevant in explaining the financial performance for the half-year:

	Consolidated	
	2009	2008
	\$	\$
(a) Revenue		
Oil and Gas income	461,928	1,051,034
Interest received	18,367	102,999
Foreign exchange gain	-	295,779
Other income	3,156	79
	483,451	1,449,891
(b) Expenses		
Depreciation of non-current assets	3,630	13,102
Amortisation	164,807	221,826
Option issue expense	-	14,700
Contribution to employee superannuation plans	21,270	18,547

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

NOTE 3: PROPERTY PLANT AND EQUIPMENT

	Consolidated			
	Office Equipment \$	Computer Equipment \$	Oil & Gas Properties \$	Total \$
Half year ended 31 December 2009				
At 1 July 2009, net of accumulated depreciation	20,687	274	4,347,484	4,368,445
Effects of movements in foreign exchange	-	-	(446,391)	(446,391)
Additions	-	-	947,460	947,460
Depreciation / amortisation for the half-year	(3,372)	(258)	(152,406)	(156,036)
At 31 December 2009, net of accumulated depreciation / amortisation	<u>17,315</u>	<u>16</u>	<u>4,696,147</u>	<u>4,713,478</u>
Year ended 30 June 2009				
At 1 July 2008, net of accumulated depreciation	27,391	19,043	-	46,434
Transferred from exploration & evaluation expenditure	-	-	1,764,869	1,764,869
Transferred from development expenditure	-	-	3,243,944	3,243,944
Depreciation / amortisation for the year	(6,704)	(18,769)	(661,329)	(686,802)
At 30 June 2009, net of accumulated depreciation / amortisation	<u>20,687</u>	<u>274</u>	<u>4,347,484</u>	<u>4,368,445</u>
At 31 December 2009				
Cost	36,843	48,248	5,563,906	5,648,997
Accumulated depreciation / amortisation	(19,528)	(48,232)	(867,759)	(935,519)
Net carrying amount	<u>17,315</u>	<u>16</u>	<u>4,696,147</u>	<u>4,713,478</u>
At 30 June 2009				
Cost	36,843	48,248	5,008,813	5,093,904
Accumulated depreciation / amortisation	(16,156)	(47,974)	(661,329)	(725,459)
Net carrying amount	<u>20,687</u>	<u>274</u>	<u>4,347,484</u>	<u>4,368,445</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

NOTE 4: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Consolidated	
	31-Dec	30-Jun
	2009	2009
	\$	\$
Costs carried forward in respect of:		
Exploration and evaluation phase - at cost		
Balance 1 July	1,072,088	1,506,637
Effects of movements in foreign exchange	(110,079)	284,537
Expenditure incurred	<u>2,212,882</u>	<u>2,069,788</u>
	3,174,891	3,860,962
Expenditure written off	-	(695,553)
Transferred to other receivable	-	(328,452)
Transferred to Oil & Gas Properties	-	(1,764,869)
Transferred to development phase	<u>(1,601,576)</u>	-
Balance 31 December	<u>1,573,315</u>	<u>1,072,088</u>
Development phase - at cost		
Balance 1 July	-	2,683,150
Effects of movements in foreign exchange	-	506,723
Expenditure incurred	<u>54,071</u>	<u>54,071</u>
	-	3,243,944
Transferred from exploration and evaluation phase	1,601,576	-
Provision for amortisation	(12,401)	-
Transferred to Oil and Gas Properties	-	<u>(3,243,944)</u>
Balance 31 December	<u>1,589,175</u>	<u>-</u>
Total deferred exploration, evaluation and development expenditure	<u>3,162,490</u>	<u>1,072,088</u>

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on successful development and commercial exploitation or sale of the respective areas.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

NOTE 5: ISSUED CAPITAL

	Consolidated	
	31-Dec	30-Jun
	2009	2009
	\$	\$
157,307,450 (30 June 2009: 104,321,170) fully paid ordinary shares	17,511,574	14,865,758

	Consolidated	
	31-Dec	30-Jun
	2009	2009
	No.	No.
(i) Ordinary shares - number		
At start of period	104,321,170	78,244,500
Rights Issue - 26,066,667 on 7 July 2008 at \$0.13	-	26,066,667
Shares issued - 10,000 on 10 July 2008 at \$0.25	-	10,000
Shares issued on option conversion - 3 on 1 December 2008 at \$0.25	-	3
Share placement - 7,400,000 on 21 September 2009 at \$0.055	7,400,000	-
Rights Issue - 44,688,468 on 29 October 2009 at \$0.055	44,688,468	-
Share placement - 897,812 on 6 November 2009 at \$0.055	897,812	-
Balance at 31 December 2009	157,307,450	104,321,170

	Consolidated	
	31-Dec	30-Jun
	2009	2009
	\$	\$
(ii) Ordinary shares – value		
At start of period	14,865,758	11,713,596
Rights Issue - 26,066,667 on 7 July 2008 at \$0.13	-	3,388,667
Shares issued - 10,000 on 10 July 2008 at \$0.25	-	2,500
Shares issued on option conversion - 3 on 1 December 2008 at \$0.25	-	1
Share placement - 7,400,000 on 21 September 2009 at \$0.055	407,000	-
Rights Issue - 44,688,468 on 29 October 2009 at \$0.055	2,457,866	-
Share placement - 897,812 on 6 November 2009 at \$0.055	49,380	-
Less share issue costs	(268,430)	(239,006)
Balance at 31 December 2009	17,511,574	14,865,758

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

NOTE 6: SEGMENT REPORTING

Segment Information

The Board has determined, based on reports used to make strategic decisions, that the Consolidated Entity only has one reportable segment being the oil and gas exploration and production industry in the United States of America.

NOTE 7: EVENTS AFTER THE BALANCE SHEET DATE

There has not arisen in the interval between the end of the half year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future periods.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on pages 3 to 12:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the Consolidated Entity's financial position as at 31 December 2009 and of its performance for the period then ended.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303 (5) of the Corporations Act 2001.



Laurence Roe

Director

Dated this 16th day of March 2010

INDEPENDENT AUDITOR'S REVIEW REPORT

**To the members of
Target Energy Limited**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report, which comprises the condensed statement of financial position as at 31 December 2009, the condensed statement of comprehensive income, condensed statement of changes in equity, condensed statement of cash flows and notes to the financial statements for the half-year ended on that date, and the directors' declaration, of Target Energy Limited and the entities it controlled during the half-year ended 31 December 2009 ("consolidated entity").

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Target Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Target Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L Di Giallonardo

L DI GIALONARDO
Partner

Perth, Western Australia
16 March 2010

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Target Energy Limited for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of Target Energy Limited and the entities it controlled during the period.



**Perth, Western Australia
16 March 2010**

**L DI GIALLONARDO
Partner, HLB Mann Judd**