

# mine**life**


**WEEKLY RESOURCE REPORT** by Gavin Wendt



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## Target Energy (TEX) – Hold recommendation around \$0.036

Emerging USA oil producer with a unique investment proposition as it has a large exposure and focus on the Permian Basin within West Texas, a hugely prospective and relatively untapped oil producing basin.

### Corporate Details

Status: Emerging Producer  
 Size: Small Cap  
 Commodity Exposure: Oil & Gas  
 Share Price: \$0.036  
 12-month Range: \$0.036 – \$0.095  
 Shares: 454m, Options: 41m  
 Top 20: 55%  
 Net Cash: \$1m  
 Market Value: \$16m



Key Parameters	Rating (✓ out of 5)	Quarterly Statistics
Management Quality	✓✓✓✓✓	Q4 2013 Expl'n & Dev't Spend: \$1.662m
Financial Security	✓✓✓	Q4 2013 Admin Spend: \$0.6m
Project Quality	✓✓✓✓✓	Exploration Spend 73%, Admin Spend 27%
Exploration / Resource Potential	✓✓✓✓✓	Q1 2014 F'cast Expl'n & Devt Spend: \$0.785m
Project Risk	✓✓✓✓✓	Q3 2014 Forecast Admin. Spend: \$0.518m

Target Energy is an emerging USA oil producer that we introduced to our Portfolio during September 2013 with a Speculative Buy recommendation around \$0.056. The company maintains sizeable acreage within the prolific and highly sought-after Permian Basin in West Texas, where it has a series of producing wells and an active drilling program. Target is also producing hydrocarbons from its East Chalkley Field in southwest Louisiana. Both Texas and Louisiana are well-established petroleum provinces.

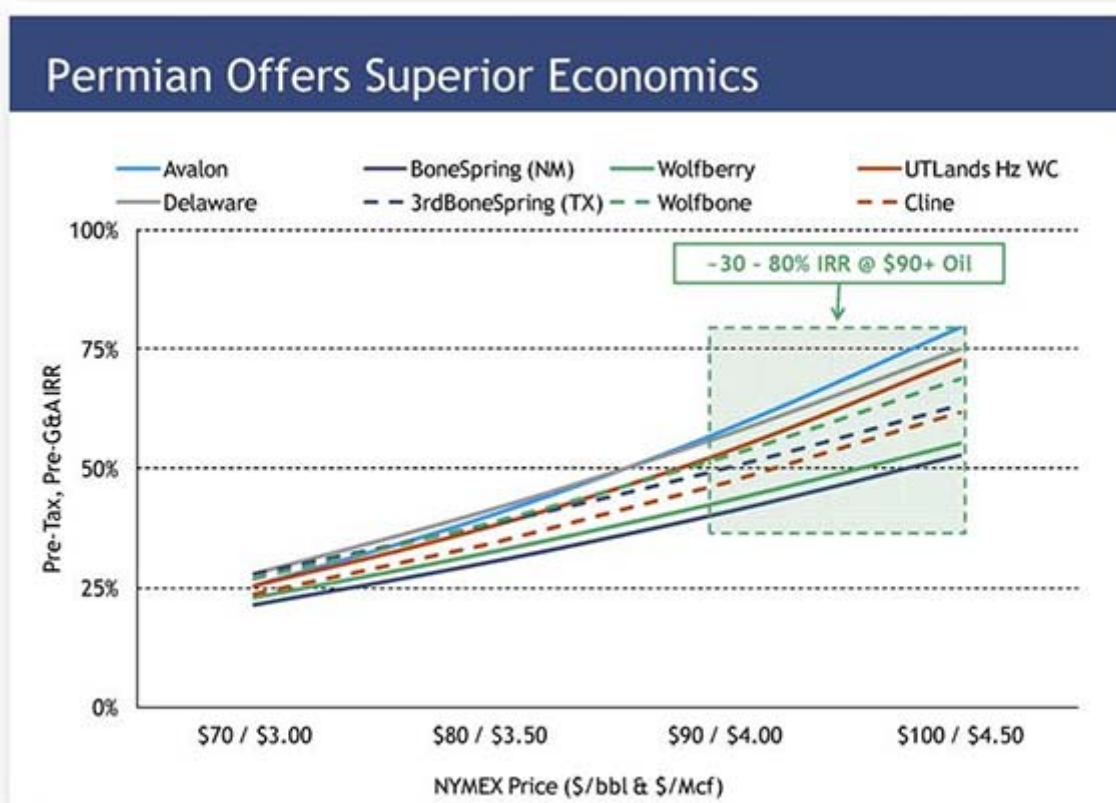
The Permian Basin in Texas is one of the most prolific hydrocarbon producing basins in the world, encompassing around 194,250 sq km in western Texas and southeastern New Mexico. The first well was drilled during 1921 in Mitchell County on the eastern side of the basin and has since produced around 29 billion barrels of oil and 75 trillion cubic feet of gas. It is estimated by industry experts to contain recoverable oil and natural gas resources exceeding what has historically been produced over the last 90 years.

Target has endured a disappointing share price performance over recent times, due to drilling delays associated with planned appraisal and production wells at its Permian Basin and East Chalkley fields, as well as poor weather between November and January. Nevertheless, this share price weakness presented a buy-in opportunity and we are confident that Target will resolve its current drilling and production issues. We also look forward to clarity around the company's near-term funding position.

## Permian Basin

Target's flagship project is its Fairway Project, situated within the Permian Basin in West Texas. Target has a 60% working interest in the play. The operator is Trilogy Operating Inc, a Texas company with a long history of drilling successful wells within the Permian Basin.

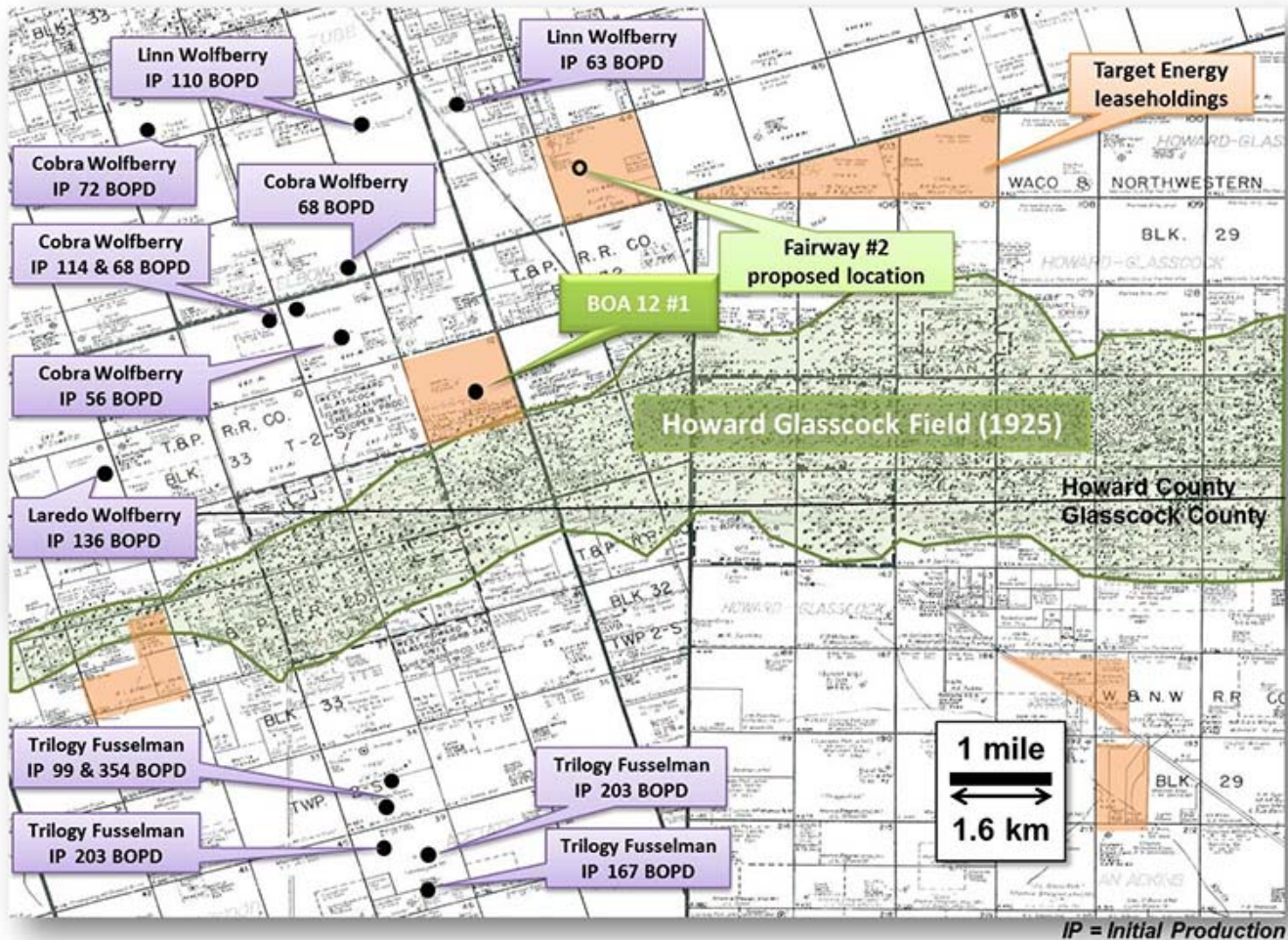
The Fairway project comprises approximately 4,500 acres and forms part of the highly sought-after Wolfberry oil resource play. The project is the focus of Target's activity and expenditure over the coming months, because the return on investment on each well is superior to industry averages, as the following chart demonstrates:



In today's commodity price environment (with oil prices comfortably in excess of \$90/barrel), Permian Basin wells typically enjoy an internal rate of return of up to 80%, based on vertical wells similar to those that Target is currently drilling. The Fairway partners are evaluating the economics of drilling horizontal wells with multi-stage fractures, but for now Target is entirely comfortable with the results so far from its early-stage drilling.

The target formations within each well are the Wolfberry formation at approximately 1,900 metres depth (6,000 ft), as well as the deeper Fusselman formation located at 3,000 metres (10,000 ft). Also present within the leases are the Canyon, Cisco, San Andres and Clear Fork formations, all of which produce within the area and are planned to be tested by future drilling programs.

According to internal estimates, each formation is targeting up to 140,000 barrels of oil equivalent (boe) from the Wolfberry formation, with potential for up to an additional 200,000 boe from the Fusselman formation. Based on an assumed 40-acre spacing, 87 wells could be located within the present acreage.

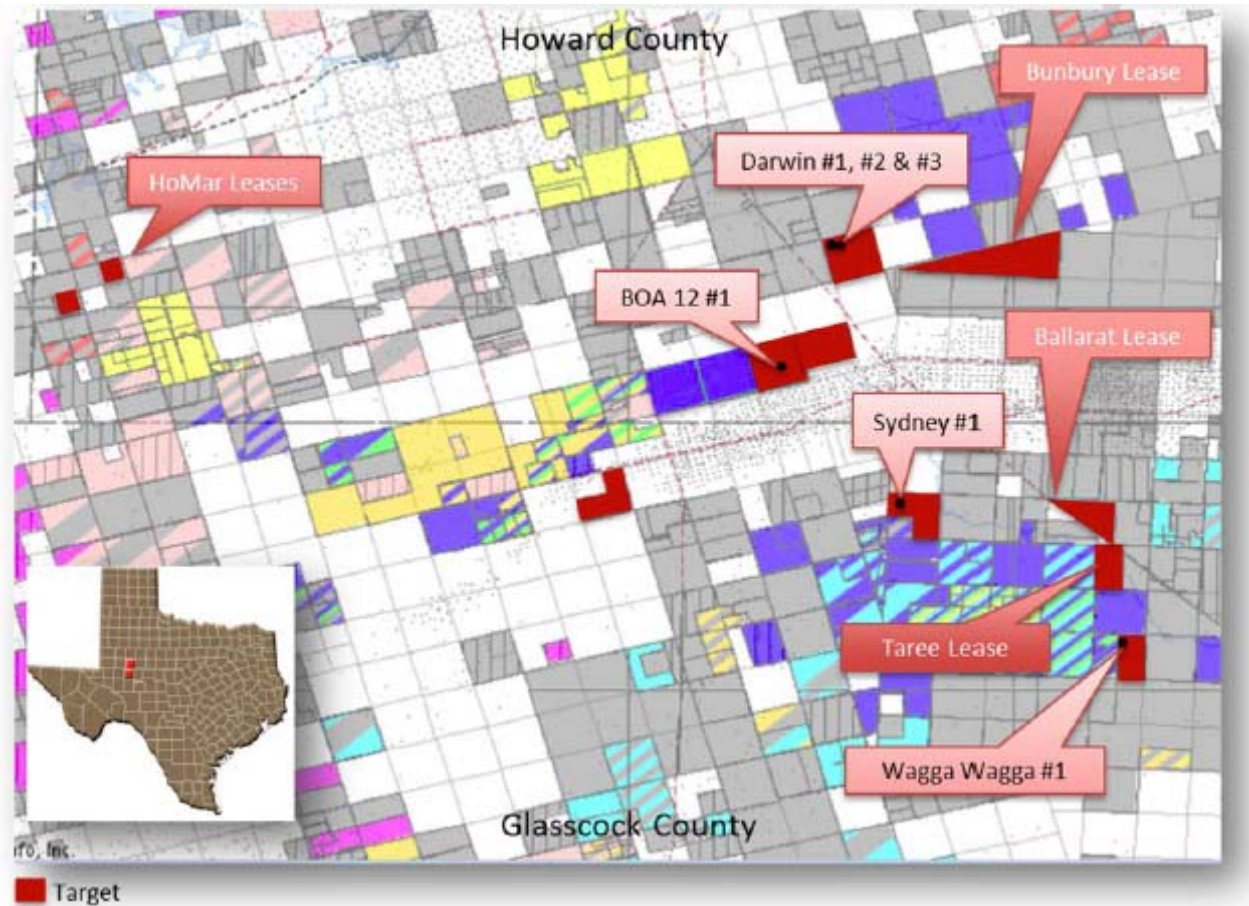


Target's drilling program within the Darwin and Sydney leases inside the Permian Basin Fairway Project contributed to a 320% increase in oil and gas production during H1 2013. A major drilling program commenced during late 2013.

The first well, Wagga Wagga #1 is currently undergoing a completion and testing program. The first of three planned tests in the Ellenburger Formation was undertaken on 31 Jan 2014 over a 0.6-metre interval at a depth of approx. 3,030 metres. The test unfortunately recovered only water with no hydrocarbons present, and testing of the second Ellenburger zone is set to commence.

Meanwhile, the Sydney #2 well is located approximately 800 metres east of Sydney #1 and has targeted both the Wolfberry and Fusselman sections. Drilling operations commenced on 26 November 2013, with the well reaching a Total Depth of 3,040.4 metres on 7 December 2013. Good shows were encountered while drilling and subsequent wire-line log analysis indicated potential pay in the target intervals. The Fusselman Formation was intersected 13 metres up-dip to that of the nearby Sydney #1 oil well.

Completion operations are underway at Sydney #2, with a preliminary flow-test yielding an oil flow rate of 75 BO within 19.5 hrs (equivalent to 92 BOPD). The oil was accompanied by a large amount of water (approx. 800 BW), which appears to be flowing from vertically extensive fractures. Work is underway to minimise the water flow.

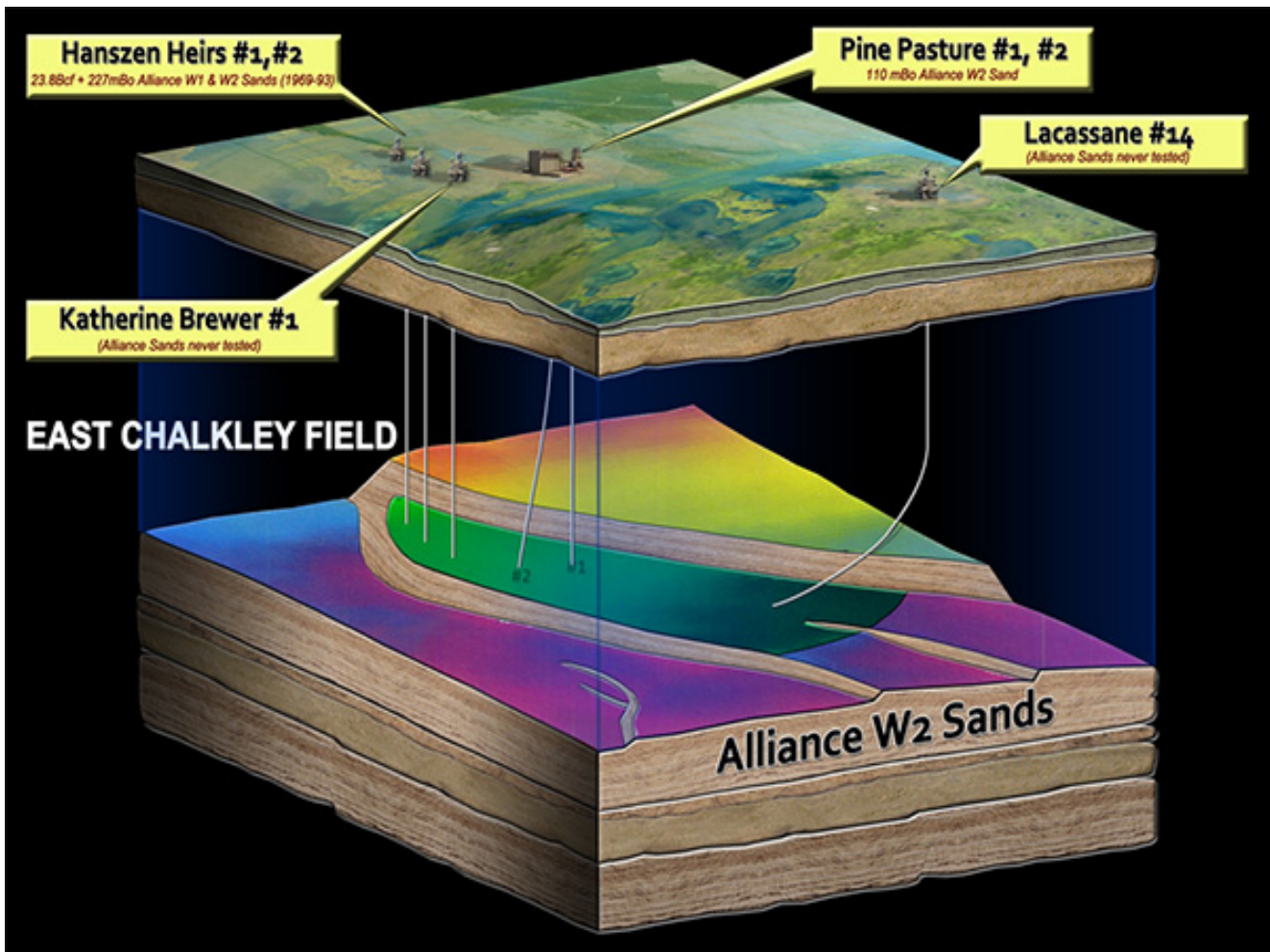


## East Chalkley Project

Target holds a 35% working interest in this particular project, which is an appraisal and development project operated by Magnum Hunter Resources Corporation. The acreage is located approximately 33km southeast of the town of Lake Charles in Cameron Parish, southern Louisiana.

Independent reserve studies undertaken for Target have indicated that the field may contain up to 1.7 million barrels of P50 ("most likely") technically recoverable reserves and resources, with a P10 or upside estimate of 4 million barrels of oil.

Target participated in the successful drilling of the first oil development well on the acreage, Pine Pasture #2, during 2008. Pine Pasture #3 was drilled during June 2013 to a depth of 3,011.5 metres as a development well, with wire-line logs confirming the presence of approximately 8 metres of potential net pay within the Alliance W2 sands at a depth of 2,947 metres, similar to and 8 metres up-dip from the Pine Pasture #2 oil well. The well was subsequently cased for production and completed and brought on-line on 7 October 2013.



Production has been unfortunately restricted by problems associated with the down-hole pump assembly - initially as a consequence of the pump frequently shutting itself down. Subsequent reprogramming has largely eliminated this issue, but overall production volumes from Pine Pasture #3 remain low (average in December: 8 BOPD / 30 mcf / 84 BWPD), potentially as a result of a down-hole blockage, in turn probably a consequence of the initial pump issues. The partners are presently analysing pump and well-performance data ahead of implementing a remediation program.

## Drilling Schedule

Estimated Timing*	Prospect	Location	Target Working Interest (WI)
Completion Imminent	Wagga Wagga #1	Howard Co, Tx	45%
Completion Underway	Sydney #2	Glasscock Co, Tx	60%
Q1 2014	BOA North #3 / BOA North #4	Howard Co, Tx	60%
Q2 2014	Ballarat #1 / Wagga Wagga #2	Glasscock Co	60-45%
Q3 2014	Bunbury #1 / Taree #1 / BOA North #5	Howard / Glasscock Co	60%
Q4 2014	Darwin #4 / Ballarat #2	Howard / Glasscock Co	60%

## Growing Reserves Base

Target's oil reserves and resources increased by 280% to 2.88 million barrels of oil equivalent (MMBOe), and its proven and probable reserves have jumped by 887% to 1.2 MMBOe, according to independent reserves estimates conducted during 2013.

Category	Net Reserves & Resources		BO equiv.
	Oil (Mbbbls)	Gas (MMscf)	(Mboe)
Proved Developed Producing (PDP)	109.1	200.6	142.5
Proved Developed Not Producing (PDNP)	36.4	85.7	50.7
Proved Undeveloped (PUD)	331.6	517.6	417.9
<b>Total Proved Reserves (1P)</b>	<b>477.1</b>	<b>803.9</b>	<b>611.1</b>
Probable	455.7	670.3	567.4
<b>Total Proved &amp; Probable Reserves (2P)</b>	<b>932.8</b>	<b>1,474.2</b>	<b>1,178.5</b>
Possible	683.9	970.9	845.8
<b>Total Proved, Probable &amp; Possible Reserves (3P)</b>	<b>1,616.8</b>	<b>2,445.1</b>	<b>2,024.3</b>
Low Estimate Contingent Resources	-	-	-
Best Estimate Contingent Resources	331.9	-	331.9
High Estimate Contingent Resources	523.3	-	523.3
<b>Total Contingent Resources (3C)</b>	<b>855.2</b>	<b>-</b>	<b>855.2</b>
<b>Total Reserves &amp; Resources</b>	<b>2,472.0</b>	<b>2,445.0</b>	<b>2,879.5</b>

Table 1: Target Energy Net Reserves & Resources – 30 June 2013

The reserves estimates encompass the company's interests in its Texas and Louisiana oil and gas producing properties. Most importantly, the bulk of the increase is in the Proved and Probable Reserves, and is primarily based on only four producing Fairway wells, leaving considerable upside reserve potential.

## December Quarter Production

Project	TEX WI	Gross Gas Prod'n in Period (mmcf)	Cumulative Gross Gas Prod'n (mmcf)	Net Gas Prod'n in Period (mmcf)	Cumulative Net Gas Prod'n (mmcf)	Gross Oil Prod'n in period (BO)	Cumulative Gross Oil Prod'n (BO)	Net Oil Prod'n in Period (BO)	Cumulative Net Oil Prod'n (BO)
Section 28	25%	32.8	2,342.1	8.2	585.5	423	90,768.0	106	22,692
East Chalkley	35%	10.4	53.4	3.6	18.7	3,834	111,771.5	1,342	39,120
Merta	25%	10.7	387.0	2.7	96.8	8	5,052.7	2	1,263
Fairway+	60%	25.2	110.3	15.1	66.2	10,672	71,974.9	6,403	43,185
<b>Total</b>		<b>79.1</b>	<b>2,892.8</b>	<b>29.6</b>	<b>767.2</b>	<b>14,936.6</b>	<b>279,567.1</b>	<b>7,852.7</b>	<b>106,260.1</b>

## Summary

Drilling delays and production issues have negatively impacted Target Energy's share price. Nevertheless, we are confident that the company will overcome these issues. The Permian Basin in Texas is a major oil province, however it is not well understood by Australian investors - and there are relatively few ASX-listed junior exposures. Accordingly, Target Energy is in reality not fully appreciated, nor fully understood by investors. Nevertheless, the company has enjoyed solid exploration and production success and we are confident that its fortunes will improve. For the time being however we maintain a Hold Recommendation pending clarity around its funding position.

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