TARGET ENERGY LTD

RESEARCH NOTE

Right in the bullseye in the Permian

14 February 2014

12mth Rating		**SPECULATIVE BUY**
Price	A$	0.04
Target Price	A$	0.09
12m Total Return	%	156
RIC: **TEXAX**		BBG: **TEX AU**
Shares o/s	m	453.7
Free Float	%	100.0
Market Cap.	A$m	18.1
Net Debt (Cash)	A$m	-0.8
Net Debt/Equity	%	4.8
3m Av. D. T'over	A$m	0.01
52wk High/Low	A$	0.10/0.04
2yr adj. beta		0.45
Valuation:		
Methodology		NPV
Value per share	A$	0.09

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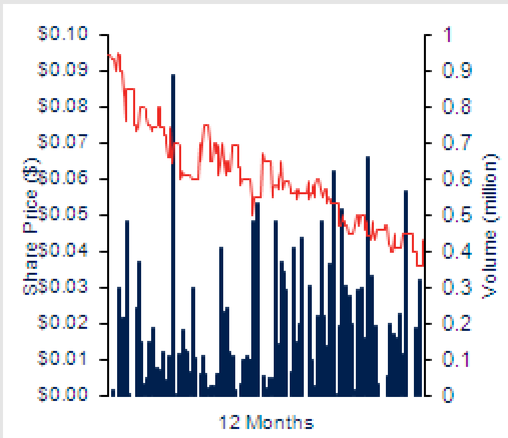
Disclosure:

We initiate coverage on Target Energy (TEX) with a SPECULATIVE BUY rating and a price target of $0.09ps. TEX is focussed in the Permian basin (Midland sub basin) in Texas USA, targeting conventional oil resources with unconventional exploration upside. TEX has high retained interests in its key Fairway project located in the heart of the Permian basin and is poised to undertake a 9 well programme in 2014 targetting significant production and cash flow growth.

- **Production growth on-shore USA Fairway project/Permian basin:** TEX is poised to generate significant production and cash flow growth as it looks to embark on a 9 vertical well drilling programme in 2014 in its Permian basin acreage interests (4,528 gross acres (net TEX 2,672) in 2014 targeting the conventional Fusselman and Wolfberry formations. TEX average production in 2013 was at 188boepd (+144% from 2012) and is now looking to grow to up to 300 boepd in 2014 from this drilling programme. Existing production covers the G&A costs of the business.
- **2P Reserves of 1.2mmboe/80% liquids:** TEX has 1.2mmboe 2P reserves (80% oil) (largely the Fairway project/Fusselman zone) which has grown by over 887% in 2013 from a six well infill development drilling programme with further significant growth expected from the 2014 drilling programme.
- **Exploration upside: Wolfcamp and Cline shale:** TEX's strategy is to target the low cost conventional production from the Fusselman/Wolfberry formation to build early production and cash flow. It will then move to exploit the Wolfcamp and Cline shales in later years, after the play has been substantially de-risked, utilising horizontal drilling and multi-stage fraccing with up to 110 well locations. Pioneer, Laredo and Apache are currently drilling up to 100 wells in these shales, yielding encouraging early results.
- **Industry Activity:** The Permian Basin is the top US oil shale basin ahead of the Eagle Ford and Bakken and is now generating nearly 1.3mbopd/4bcf gas. Key players nearby include Occidental, Apache and Pioneer. TEX projects are located near the city of Midland, which has significant infrastructure including drill rigs & frac crews.
- **Management:** TEX is led by an experienced Board and management team who have strong oil and gas experience in developing and building a small cap oil and gas company.
- **Key Catalysts:** 9 well Fairway project drilling 2014; 1 well East Chalkley drilling late 2014.
- **Key Risks:** Funding risk, Development, Exploration risk, Commodity price risk.

Year End Jun 30	2012A	2013A	2014F	2015F	2016F
Reported NPAT (A$m)	(2.1)	(0.7)	3.4	6.1	7.3
Recurrent NPAT (A$m)	(2.5)	(2.8)	3.4	6.1	7.3
Recurrent EPS (cents)	(0.8)	(0.7)	0.7	1.3	1.6
EPS Growth (%)	na	na	na	na	114.7
PER (x)	(4.3)	(4.8)	4.8	2.7	2.2
EBITDA (A$m)	(0.9)	(0.3)	5.2	10.3	13.1
EV/EBITDA (x)	(12.7)	(49.4)	4.7	2.2	1.6
Capex (A$m)	4.0	5.8	9.2	7.4	8.8
Free Cashflow	(4.9)	(7.4)	(7.2)	0.0	1.1
FCFPS (cents)	(1.6)	(2.0)	(1.6)	0.0	0.2
PFCF (x)	(2.2)	(1.8)	(2.3)	487.1	15.1
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

12 Month Share Price Performance



Performance %	**1mth**	**3mth**	**12mth**
Absolute	-10.0	-32.1	-59.1
Rel. S&P/ASX 300	-10.5	-29.7	-59.5

Key Points

We initiate coverage on emerging oil and gas company Target Energy Limited (TEX) with a price target of $0.09ps, a significant total return based on the current share price. TEX is focussed on its Fairway project in the Permian Basin (Midland sub basin), onshore USA. TEX is targeting conventional oil resources with unconventional exploration upside. TEX has high retained interests in its key projects and is poised to undertake a 9 well programme in 2014 targeting significant production, reserves and cash flow growth following on the success achieved in 2013. The key points are:

Production growth on-shore USA Permian Basin targeting 300boepd oil 2014
TEX is poised to generate significant production and cash flow growth as it looks to embark on a 9 well drilling programme in 2014 in its Permian basin acreage interests (4,528 gross acres (net TEX 2,672/60% retained interest) targeting the conventional Fusselman formation. TEX averaged production in 2013 at 188boepd mainly from the Fusselman (+144% from 2012) and is poised to grow to up to 300 boepd in 2014 from this drilling programme. Economics for Fusselman/Wolfberry wells are attractive with an estimated mid case average gross NPV of $2.8m per well based on an EUR 200mboe (range: 110-430mboe). Existing production generates approx. $2m per annum which covers G&A costs of the business.

2P Reserves of 1.2mmboe/80% liquids/Significant growth in 2013
TEX has 1.2mmbboe 2P reserves (80% oil) (largely attributable to the Fairway project/Fusselman zone) which has grown by over 887% in 2013 from a six well infill development drilling programme with further significant growth expected from the 9 well 2014 drilling programme. Further significant reserve growth can be achieved by success in the staged shale exploration programme.

Exploration upside Wolfcamp/Cline shales – significant resource potential
TEX's strategy is to target the low cost conventional production from the Fusselman/Wolfberry formation in phase 1 using low cost vertical wells, to build early production and cash flow. TEX will then move to exploit the Wolfcamp and Cline shales in later years after the play has been substantially de-risked utilising horizontal drilling and multi-stage fraccing with up to 110 well locations. Pioneer, Laredo and Apache are currently drilling up to 100 wells in the Wolfcamp and Cline shales which are yielding encouraging early results with Apache recording EURs ranging from 187-604mboe from 12 completed horizontal Cline shale wells. With 110 well locations at an average EUR of 180mboe, TEX acreage contains significant resource potential and will look to take advantage of this expertise as the Permian offers a low risk, liquids rich resource play with attractive economics.

Industry Activity
The Permian Basin is the heart of the US oil shale boom and is now generating nearly 1300kbopd. Key players nearby include Occidental, Apache and Pioneer. TEX projects are located near the city of Midland which has significant infrastructure including drill rigs, frac crews.

Management – proven track record
TEX is led by an experienced Board and management team who have broad experience in developing and building an upstream oil and gas company, in particular, in US oil plays.

Figure 1:Reserves&Resources(mmboe)*

	2P Reserves	Contingent Resources*
Oil	0.93	1.02
Gas	1.47	0.97
TOTAL	1.18	1.18

**Includes 3P reserves*
***Net TEX. Source: TEX* announcements

Figure 2: Production Growth (mboe)

Category	2014e	2015e	2016e
Oil	79.6	128.2	151.7
Gas	28.8	64.3	73.7
TOTAL	**108.4**	**192.5**	**225.4**

Figure 3: Earnings Growth ($m)

Category	2014e	2015e	2016e
EBITDA	5.2	10.3	13.1
NPAT	3.4	6.1	7.3
EPS	0.75	1.35	1.38

Figure 4: SWOT Analysis

Strengths

✓ Focused holding in key Permian Basin oil play
✓1.2mmboe 2P reserves/2mmboe 3P/0.8mmboe resources
✓Strong in-house technical/management expertise/exploration experience.
✓ Focussed company all TEX assets in on-shore USA in Texas/Louisiana
✓ Good access to infrastructure/drill rigs etc
✓ Material interest in flagship play 60% of Fairway project acreage targeting low risk conventional Fusselman play.
✓ Existing production assets used to fund G & A of the business
✓~$1 million cash
✓ Low number of shares on issue.

Opportunities

✓ Underexplored unconventional potential in multiple horizons with Cline shale and Wolfberry shale potential.
✓Industry activity by Occidental, Pioneer, Apache nearby with multiwell programmes in the Cline and Wolfberry shale elevates the prospectivity of TEX's acreage.
✓ High leverage to success due to low market valuation – farm out could achieve a re-rating of TEX

Weaknesses

× Exploration/Geological risks on unconventional shale on the Fairway project. TEX will look to bring in funding and expertise provided by a major E&P partner farming into the project.
×Lack of capital, low cash balance to fund extensive drilling programme will require funding to progress.

Threats

× Unconventional drilling is subject to variable well production rates and estimated ultimate recovery (EUR), reservoir performance and significant decline rates.
× Commodity prices: Oil and Gas prices.

Catalysts and Risks

It is important to note that an investment in TEX is high risk and speculative. The key catalysts and risks to an investment in TEX are as follows:

Target drilled 6 wells in 2013 and delivered reserves growth of 887%

Catalysts/Positives

- **Development catalysts:** Following are the key areas of focus for TEX:

Project	Details	Timing
Fairway	9 well programme:	
	2 wells: BOA North #3 &4	Q1 2014
	3 wells: Ballarat #1/ Wagga Wagga #2	Q2 2014
	3 wells: Bunbury#1/Taree #1/BOA North #5	Q3 2014
	2 wells: Darwin #4/Ballarat #2	Q4 2014
East Chalkley	Possible Injector Well	2014

- **Resource/Reserve bookings**: Drilling and successful testing of 9 wells in 2014 should enable the booking of a significant increase in Reserve/Resource potential. TEX booked an increase in 2P reserves of 1mboe in 2013 +887% increase.
- **High retained interest:** TEX has high retained interests in its acreage of 60% across the acreage which provides for alternative non–dilutive funding options. The farm down and appointment of an experienced industry partner with significant oil shale experience could be considered by TEX in exploration/appraisal of their significant Wolfcamp/Cline shale position.

Target has a 9 well programme planned in 2014

- **Industry activity:** Industry activity in the on shore unconventional shale oil sector has increased in US in the last 3 years following the shale gas revolution. Utilising the same horizontal drilling and hydraulic fracturing techniques as used in shale gas, tight/shale oil production in the US has increased significantly over the last 3 years. The Permian play is the one of the key areas of focus of the US shale oil revolution and is now generating close to 1.3m bbl day of production.
- **Management expertise:** TEX management have been involved in the development of emerging E&P companies including emerging Australian unconventional E&P companies.
- **Access to drilling equipment and nearby infrastructure**: The Fairway project is in the heart of the Permian basin and is well located close to nearby infrastructure with ready access to drilling equipment, rig teams, salt water disposal and pipeline infrastructure.

Risks/Negatives

Whilst there is exploration risk in the Wolfberry and the Cline shale, TEX can leverage off the success of other E&P companies de-risking the play.

- **Limited current production/low reserves:** TEX averaged production in 2013 of 188boepd and is currently producing at 100 boepd due to the work over wells impacted by winter storms). TEX is expecting to regain this production within the next month however it cannot be guaranteed to return to the same levels. This production generates approximately $2m per annum cash flow which covers the G&A costs and a portion of development costs. However both reserves and production have grown significantly during 2013 (+887%/+144%) and are expected to grow further in 2014 from the 9 well programme. Further material production growth will come from development of TEX's unconventional acreage however well performance can vary from location to location.
- **Exploration/Geological risks:** TEX is sensitive to exploration and geological risks on its unconventional assets in the Cline and Wolfcamp shales. Importantly TEX is not likely to undertake this exploration until several years time when the play has been significantly de-risked by the Industry majors and TEX will look to leverage of this expertise. TEX will also look to potential farm down to enable free carry and share the risk on this exploration. Capital and expertise provided by a Farm-out partner would be a key mitigant in this process.
- **Development risks**: As with any resource development project there is the risk that the development does not proceed according to plan. Timing, capital costs, technical and reserve risks and access to infrastructure can negatively impact earnings and valuation.
- **Funding risks:** TEX has cash of $1m and is partly funded for the proposed 2014 9 well drilling programme at Fairway expected to cost a gross $16.2m (net TEX $9.7m). TEX will look to fund this programme from a mixture of cash, cash flow from production and funding from debt or equity with TEX actively looking to put in place a reserve based lending facility. Production from the Fairway will largely become self funding post 2014. To fund a future exploration programme of TEX's Wolfcamp and Cline shale assets TEX may look to farm down its interest to provide free carry on a multi-well programme.
- **Other Standard oil industry risks**: Commodity prices and exchange rate risks. TEX has no oil price or exchange rate hedging in place. This is particularly relevant for shale plays which require an oil price of $40-50/bbl to ensure economic viability.

Valuation $0.09ps

We are initiating coverage on Target Energy with a SPECULATIVE BUY rating and a risked valuation/price target for TEX of $0.09ps which represents significant upside to the current share price. We believe TEX has an attractive portfolio of assets centred in the USA's most prolific shale oil basin. Our base case valuation is summarised below:

Our base case valuation assumes development of the Fusselman formation at the Fairway project

Figure 5: Base Case Valuation

Valuation	A$m	A$/sh
Fairway Project	27	0.06
East Chalkley	2	0.00
Merta & Section 28	2	0.00
Exploration	38	0.08
Corporate	(20)	(0.04)
Cash	1	0.00
Debt	(8)	(0.02)
Total @ 10% Discount Rate	**42**	**0.09**
Price Target		**0.09**

Source: Patersons Estimates

Significant upside exists to the base case in the event of a higher EUR at Fairway

Valuation Methodology:

Fairway: Our valuation for the Fairway project is based on a DCF of the full field development of its interests at an 120-acre spacing using a number of conservative assumptions:

- We have assumed an EUR of 200mboe per well in line with TEX's mid case scenario based on average of production from the Fusselman (4 wells) and Wolfberry (5 wells) formations.
- We have assumed vertical well costs of US$1.8m, and operating costs of US$13/boe.
- In addition to individual well profiles, the rate of drilling has a large impact on the overall production profile and NPV. Our model assumes 9 wells are drilled in 2014, 4 wells in 2015, 6 wells in 2016. Beyond that period a multi well development programme could be rolled out.
- We assume a long term liquids price of US$90/bbl and a gas price of US$4/mmbtu.

We have modelled the TEX Fairway project based on the Fusselman/Wolfberry well economics on a Base case/Low/High scenario as detailed below and as can be seen the project valuation is very sensitive to the EUR per well.

Further upside exists in the Wolfberry and Cline shales with up to 110 well locations

	Low	Base	High
EUR	110mboe	200mboe	300mboe
Fairway Project Valuation (A$m)	**$1.6m**	**$27m**	**$57m**
TEX Value (A$/ps)	$0.04	$0.09	$0.16

East Chalkley, Merta, Section 28: We have included a DCF valuation of the remaining 2P reserves at the East Chalkley, Merta and Section 28 projects.

Contingent & Prospective Resources: To value contingent and prospective shale resources attributable to the Fairway projects (Cline and Wolfcamp shales) we have used an "Expected Monetary Value" approach, which is an industry standard methodology. This methodology involves calculating a theoretical success value, weighting it by the assessed probability of success and subtracting well costs. All wells should have a positive EMV or they should not be drilled. We have risked these valuations to take into account the inherent uncertainties such as production timing and capex delays and over runs. TEX have stated that there are up to 110 potential well locations on the Fairway project at 40 acre spacing and we have assumed an average EUR of 185mboe per well which we believe is a conservative assumption. (Apache recording EURs ranging from 187-604mboe from 12 completed horizontal Cline shale wells.) We have heavily risked this exploration potential so significant upside exists in the shale assets if the play is de-risked. Large cap E&P companies Pioneer, Larado and Apache are currently drilling up to 100 wells in the Wolfcamp and Cline shales which are yielding encouraging early results. TEX will look to leverage of this expertise in later years when the play has been substantially de-risked. The Permian offers the potential of a low risk, liquids rich resource play with attractive economics.

Other: The NPV of corporate overhead, cash and net debt are added to the valuation.

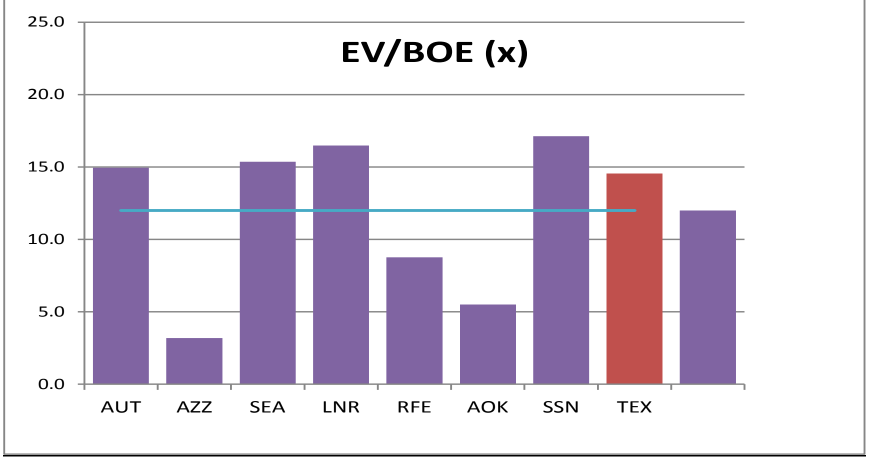
Our valuation is based on 453m fully diluted shares on issue. We have assumed a debt raising of $6m to fund TEX's share of 2014 development programme combined with the existing convertible note of $1.8m.

Comparable Valuations

In Figure 6 below we highlight the valuation of TEX vs its market peers and highlight the fact that TEX trades at a slight premium to its US shale oil peers based on an EV/2P multiple. TEX trades on an EV/2P multiple of A$14.5/boe, which compares to an average of A$12/boe for comparable US shale companies. However, based on 3P reserves of 2mmboe, TEX trades on a multiple of $8.5/boe which is more attractive. Given the significant growth in TEX's reserves in 2013 of 887% from a 6 well programme, further significant growth in 2014 is expected from the 9 well programme. This highlights the considerable potential value of TEX's assets. TEX trades on an EV/acre multiple of approx. $7k which compares to the average of $27k/acre, based on the valuations of Diamondback Energy, Pioneer Natural Resources, Laredo Petroleum and Athlon Energy[1] who all have acreage in the Midland Basin nearby TEX acreage. TEX acreage was acquired at approx. $850/acre.

1.Source: RBC Capital presentation: Permian A&D Market Update 15 October 2013.

Figure 6: EV/2P US Shale oil companies

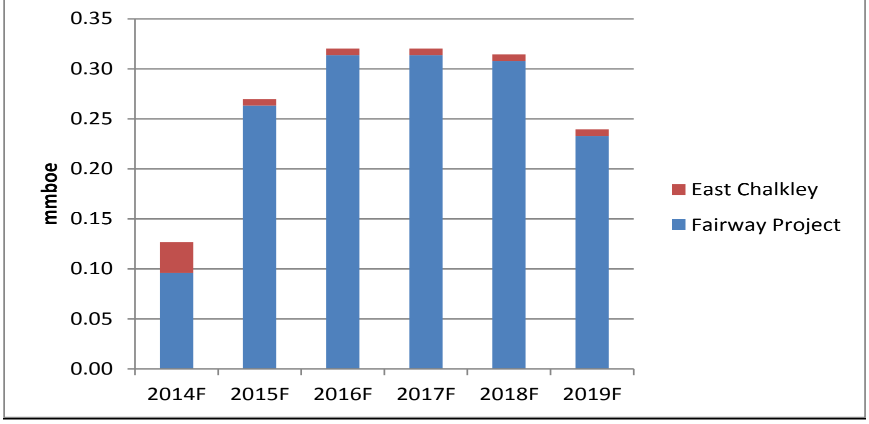


Source:IRESS, Company reports

Production Outlook

Our base case production profile assumes the production from the Fairway and East Chalkley fields under the proposed 9 well development programme over 3 years. We have modelled the 9 well programme assuming an expected EUR of gross 200mbbl per well (net 120mbbl TEX) and assumed a blended type curve for Fusselman and Wolfberry production. This scenario forms the basis of our earnings outlook for TEX, with production peaking at 800boepd generating almost 330mboe p.a. net to TEX on our modelling assumptions. The main risks to production are development related and include funding of the well programme and well performance.

Figure 7: TEX Production Outlook



Source:IRESS, Company reports

Company Overview

Target Energy Limited (TEX) is an emerging oil & gas company focused in the Permian basin in Texas with additional acreage in Louisiana on shore USA and first listed on the ASX in 2006. Texas and Louisiana were the initial areas selected by TEX as they are well established oil and natural gas provinces with reasonable regulatory environments and opportunities for future growth. TEX's main area of focus is the Fairway project located in the Permian basin (Midland sub basin) in Texas which generated production of 188boepd in 2013 and where a 9 vertical well programme is planned in 2014. TEX's business strategy is to acquire meaningful acreage leaseholds in US onshore hydrocarbon basins which contain significant untapped oil and gas reserves and grow production, reserves, cash flow and shareholder value through a comprehensive drilling program which utilises current oilfield technology in both conventional and unconventional oil resource plays.

TEX has secured acreage in the prolific and highly sought-after Permian Basin in West Texas and currently has four producing wells in the Fairway project and an active forward drilling program. TEX is also producing hydrocarbons from its East Chalkley Field in southwest Louisiana with additional drilling planned. TEX's strategy has three key elements:

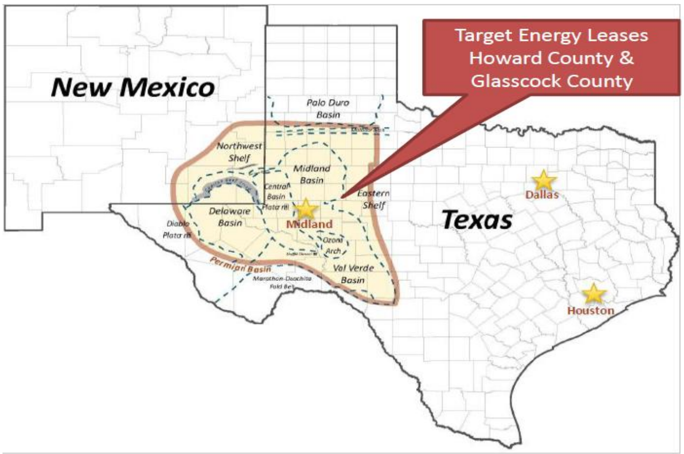
- Focus on US resource plays with attractive, repeatable well economics
- Acquire and develop assets in proven oil plays utilising advanced drilling and completion technologies
- Leverage strong relationships with local partners to expand portfolio in areas of interest

Figure 8: TEX Projects

Source: TEX Company Announcements

Figure 9: MAP of TEX fairway project

Regional Map of Permian Basin [1]



Source: TEX Company Announcements

Key Assets

The main focus of TEX is the 9 well development well programme planned on Fairway Project in the Permian basin in Texas. TEX drilled a development well on the East Chalkley project in 2013 and is looking to develop the field in late 2014. TEX has 2 other legacy gas/oil projects which generate a small amount of production and cash flow and require little capex or management time. Key details on the assets are as follows:

Figure 10: TEX Company Assets

Project	Location	TEX Interest	Details	Description	Acres (net)	Operator	Status
Fairway	**Texas**	**60%**	**Production/Development**	**Conv & Unconv Oil**	**2,672**	**Trilogy**	**Focus**
East Chalkley	**Louisiana**	**35%**	**Production/Appraisal**	**Conv Oil & Gas**	**250**	**Magnum**	**Focus**
Merta Gas Field	**Texas**	**25%**	**Production**	**Conv Oil & Gas**	**76**	**Hollimon**	**Legacy**
Section 28	**Louisiana**	**25%**	**Production**	**Conv Oil & Gas**	**20**	**Cypress**	**Legacy**
Total					**3,017**		

Source: Source: TEX Company Reports. Focus area highlighted.

Fairway Project –Howard & Glasscock Counties/Texas –USA

JV Participants	JV Partners: TEX 60%/Trilogy Operating Inc. 30%; Avalon Oil 10%
Key Details	The Fairway project is TEX's key area of focus. It is located in Howard & Glasscock Counties in Texas near the town of Midland and is located in the prolific Permian basin. TEX and its partner Trilogy Operating Inc (Operator of the project) control 4,528acres gross with TEX holding a net 2,672 acres (net 60% in but one tract, where it holds a 45% Working Interest). This acreage position increased by 30% during 2013 and TEX is looking to actively grow this position assisted by the Operator Trilogy who are based in Midland

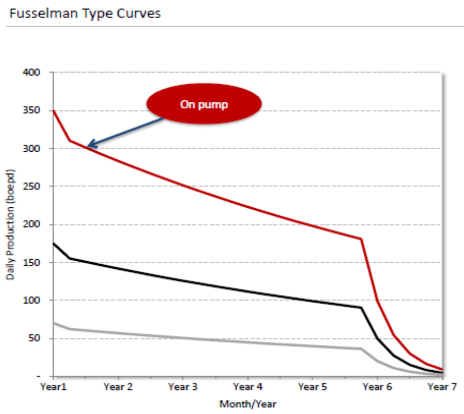
and have strong local relationships. TEX's acreage is surrounded by prolific Permian basin producers: Pioneer, Laredo and Apache and TEX acquired the acreage at approx. $850/acre. Key points are:

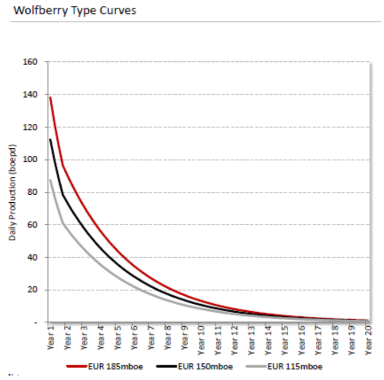
- The project targets the prolific Wolfberry section - recognised as one of the USA top oil resource plays – and the deeper Fusselman Formation, another highly productive oil zone in the region. In addition, the Fairway Project lease holdings are situated within the burgeoning Wolfcamp Shale and Cline Shale horizontal drilling trends. These targets are located over 3,900-10,000 feet (refer Figure 12). TEX's strategy to exploit the acreage is three pronged:
    1. **Fusselman:** Complete in the Fusselman conventional (carbonate) reservoir – vertical wells, strong IP rates, good EUR's and potential 5-6 producing life;
    2. **Wolfberry:** Fracture stimulate relevant Wolfberry zones – 20+ producing life;
    3. **Cline shale:** Drill horizontal wells into the Cline shale.
- TEX has a 9 well programme planned in 2014 targeting significant production and cash flow growth with 4 Fusselman and 5 Wolfberry vertical wells. Up to 110 vertical wells can be drilled on the Fairway acreage, based on a typical 40-acre spacing, with the potential to go to 20 acres where up to 220 wells could be drilled potentially doubling the value of the asset for TEX. Operators in the Permian basin advise that reservoirs would be better drained on 20 acre spacing.
- TEX is also monitoring local horizontal drilling activities within the Wolfcamp section, particularly in the Cline Shale, which are yielding encouraging results and may provide exploration upside.
- Current gross daily production is 163boepd from 5 wells (net 100boepd TEX) from five wells producing oil one from the Wolfberry section and three from the Fusselman/Devonian section. This is down from the average 188boepd in 2013 as the Permian Basin production has been adversely affected by extreme weather in the region from late November 2013 through to early January 2014.

- **Environmental Restrictions:** TEX acreage is held on Private Mineral leases with no restriction and production operations can go year round).
- **Lease Terms:** 20% of acreage is held by production allowing TEX to hold the property beyond the initial lease term and avoid renegotiating leases upon expiry of the initial term. The 2014 program will raise that to over 50%.
- **Infrastructure:** The basin is well served by infrastructure with ready access to drill rigs and service companies.
- **Geology:** To date the development of the Permian Basin has been focussed on the Fusselman and Wolfberry sections with the potential to expand into the Wolfcamp and Cline shales. Refer the section below for details on the Permian basin.
- **Development Plan:** TEX has an extensive field development plan consisting of the following:
    - 9 well program to commence in late Q1 2014.
    - Ongoing petrophysical analysis
    - Additional leasing of acreage
    - There is the potential for up to 110 well locations on 40 acre well spacing.
    - TEX is looking to put in place a reserve based facility to fund the well programme.

Fusselman/Wolfberry Type curve: TEX has estimated a type curve for the Fusselman/Wolfberry based on TEX's existing producing and offset wells. The Fusselman curve assumes the wells are placed on pump and exhibit a low rate of decline before water breakthrough. The Wolfberry curve assumes a more rapid decline. TEX has assumed a range of production for Fusselman/Wolfberry wells with economics highly attractive and range from IRR of 50-506% IRR assuming a $90/bbl oil price:

	Low Case	**Mid Case**	**High Case**
Fusselman	110mboe	240mboe	430mboe
IRR (%)	51%	198%	506%
NPV (m)	$1.1	$3.9	$8.0
Wolfberry	115mboe	150mboe	185mboe
IRR (%)	50%	77%	107%
NPV (m)	$1.2	$1.9	$2.7





Source: TEX announcements

- Key details on wells drilled by TEX on the acreage are as follows:

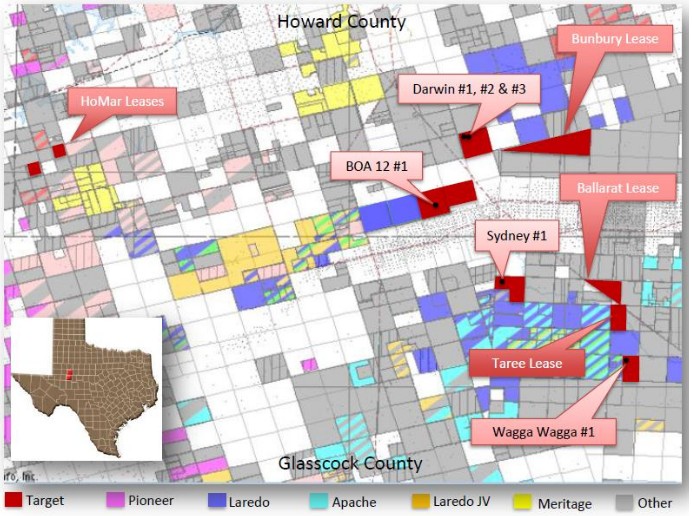
Well	Status
Darwin #1	▪ Drilled in August 2012 ▪Completed for production in Fusselman formation in Sept 2012. ▪IP of 140bopd/170mcfgd
Darwin #2	▪Testing & re-entering an old well close to Darwin #1 ▪Completed for production from the Devonian/Fusselman produced on pump at 60bopd/100 mcfgd. Ellenburger shown to be wet.
Darwin #3	▪Targeting Wolfberry & Fusselman sections. ▪Well fracture stimulated in late Oct.
Sydney #1	▪Targeting Wolfberry & Fusselman sections. ▪Ellenburger formation no oil & gas shows, Fusselman flowed oil and brought online IP of 130bopd/180 mcfgd.
Sydney #2	▪Targeting Wolfberry & Fusselman sections. ▪Ellenburger formation no oil & gas shows, Fusselman flowed oil on test at 92bopd. Well being put on pump.
Wagga Wagga #1	▪Completion imminent
BOA 12#1	▪Drilled in 2011. Completed as Wolfberry well. IP'd at 83 BOePD

- **Industry Activity:** Activity nearby is significant and TEX stands to benefit from the capex spend given the proximity of its acreage refer Figure 11. Key points:
    - Apache are one of the most active companies in the Midland basin and nearby the TEX acreage.
    - Apache 2012 wells in the Midland basin recorded EUR ranging from 125-262mboe with 30 day IP's 72-362boe/d from wells drilled in the Fusselman and Wolfberry formations on 40 acre spacing.
    - In the Cline shale Apache have recorded EURs ranging from 187-604mboe from 12 completed horizontal Cline shale wells.
    - In 2013 Apache had a 700well programme/$2.4bn capex spend in the Permian basin with 180 horizontal wells targeting the Wolfcamp/Cline shales a significant step up from 2010 when Apache spent $400m in the Permian basin.
    - Pioneer Resources nearby are also looking to drill on a 960acre section with 41 vertical Wolfberry wells and 14 Horizontal Wolfcamp wells with total capex of $180m. Pioneer see production from the Wolfcamp/Spraberry as potentially reaching 2.5mboepd in the next 20 years.
- **Well costs:** Vertical well costs are estimated to be $1.8-2.1m (net $1.1m TEX) (assumes completion in the Fusselman/Wolfberry).
- **Economics:** Given IP's of 140+ bopd and mid case Gross EUR of 240mboe, well economics for Fusselman wells are attractive with an estimated net NPV of gross mid case estimate of $3.9m per well IRR 198%. Wells are economic at oil prices of $40-50bbl. Wolfberry wells provide further upside with a mid case production estimate of EUR 150mboe and gross NPV of $1.9m and IRR of 77%.
- **Fiscal Terms:** Royalties on oil and gas production of 25%
- **Resource/Reserve potential:** 2P reserves of 1.0mmboe split 0.8mmbbl oil and 1bcf gas. With 3P reserves 1.7mmboe. These reserves are attributable to the Fusselman formation with significant additional upside resource potential from the Wolfberry,Wolfcamp and Cline shales which are starting to generate significant interest.

The Fairway project is TEX's key area of focus with significant production and reserves growth expected from the Fusselman formation which is now being de-risked. The 9 well drilling programme over the next 12months should generate significant earnings and production growth for TEX with additional resource upside from the emerging Wolfcamp and Cline shales.

Figure 11: TEX Fairway Project map

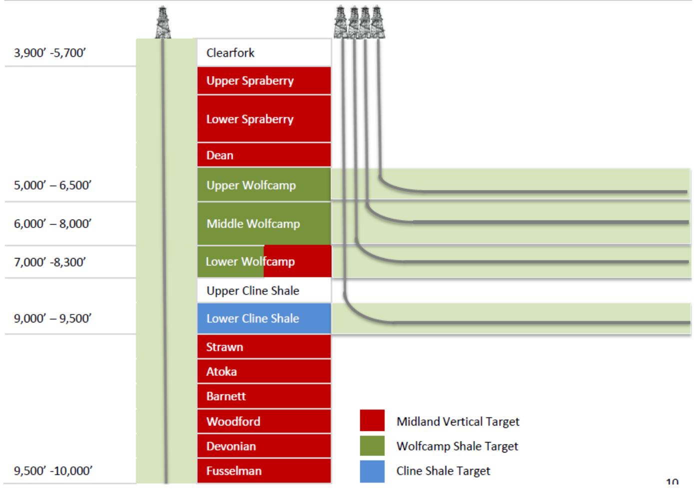
Map of Target's Fairway Project in the Midland Basin[4]



Source: TEX Company Announcements

Figure 12: Target Zones in Permian Basin

Major Reservoir Target Zones in the Permian Basin (Midland Basin)[1]



Source: TEX Company Announcements

East Chalkley Oil field –Cameron Parish/Louisiana –USA

JV Participants	JV Partners: TEX 35%/Magnum Hunter Resources 62% (Operator); CEMA 3%
Key Details	TEX holds a 35% working interest in the East Chalkley project with a 62% interest held by Magnum Hunter Resources as Operator. The project is an oil field appraisal and development program, approximately 33 km 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. Three wells have been drilled on the acreage: • Pine Pasture #1 was shut-in in 2011 due to a suspected hole in the production tubing prior to that had produced 32kbbl oil. • Pine Pasture #2 well drileld in 2008. Field production is presently around 36 BOPD (net 14bopd TEX), produced 96kbbl over life of well. • Pine Pasture #3: An up-dip oil development drilled in 2013. The well was drilled from the existing production facilities. The well was completed for production in September 2013 and was brought on line in October. Well production (8 BOPD) hampered by likely downhole blockage– work underway to remediate. • **Development Plan:** PP#3 remediation is underway, PP#1 workover and potential for waterflood in late 2014 and additional development drilling. A full field development scenario could entail 7 producing wells/3 injector wells targeting the resource potential on the field. However, development timing may be impacted by change of operatorship to drive this project. • **Well costs:** Well costs are estimated to be $3m (net $1m TEX) (deviated well, drilled and completed). • **Economics:** Given IP's of 100+ bopd (PP#2) and Gross EUR of up to 250mboe, well economics are attractive with an estimated net NPV of $ m per well with a total NPV net TEX. • **Fiscal Terms:** Royalties on oil and gas production of 31% • **Resource/Reserve potential:** Net 2P reserves of 0.053mmboe split 0.05mmbbl oil and 0.05bcf gas/3P reserves net 0.086mmboe and contingent resource potential of net 0.855mmbbl. The reserves are attributable to the Alliance W2 sand with significant additional resource potential downdip from the existing wells and from the Alliance W1. Based on a study by RISC the potential gross recoverable reserves/resources (3P/3C) are 4mmboe (net 1.4mmbboe TEX) so the resource potential is potentially higher than the most recent reserve report. **This is a small oil project generating a small amount of production and cash flow for TEX with minimal capital requirements and management time. There is the potential to drill additional producing wells to maximise recovery rate.**

Section 28 Project –St Martin Parish/Louisiana – USA

JV Participants	JV Partners: TEX 25%/Operator Cypress Production 25%; Private Companies 50%
Key Details	This is a conventional wet gas project located in St Martin Parish Louisiana. TEX holds a 25% interest in the project which covers 80 gross acres (20 acres net TEX). Production is currently 500 mcfd & 22bopd. There are multiple bypassed pay zones in each well and the ongoing development plan will target these zones. Key wells drilled to date are: • SML (Snapper) #A-1: At 30 June 2013, the well had produced 1,067 MMCFG plus 3,810 barrels of condensate. The well is presently shut-in.

	• SML (Snapper) #A-2: At 30 June 2013, the well had produced 582 MMCFG plus 38,970 bbl of oil and condensate. Currently completed for oil production from the 1st Camerina sand. The well is presently producing approx. 325 MCFGD. • SML (Snapper) #A-3: At 30 June 2012, the well had produced 623.1 MMCFG plus 45,806 bbl of oil and condensate and was producing approx. 20 bopd plus 300 MCFGD. **This is a small project for TEX and represents small additional upside from multiple bypassed pay zones which could be produced for minimal additional capital investment.**

Merta Gas Field - Wharton County/Texas -USA

JV Participants	JV Partners: TEX 25%/ Hollimon Oil (Operator) 25% interest; Private Companies 50%
Key Details	TEX holds a 25% interest in the Merta gas field covering 303 gross acres (76 acres net TEX) with production from the Cook Mountain sands in Wharton County Texas. Production is 120 mcfgd and 1bopd from 1 well and for the year ended 30 June 2013 the well had produced 310 mmcfg plus 4,279bbls of condensate. There is no forward work program on the acreage. **This is a small gas project generating a small amount of production and cash flow for TEX with minimal capital requirements and management time. There is no exploration upside associated with this asset.**

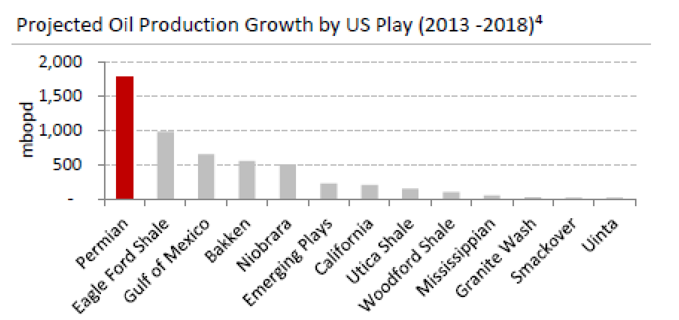
The Permian Basin

Background

The Permian Basin is the largest onshore oil-and-gas-producing area in the USA with annual production of 312mmbbl oil/1.3mbopd and is located in West Texas and the adjoining area of southeastern New Mexico. It is a mature basin with legacy oil fields (conventional production commenced in the 1920's), multiple pay zones, proven reserves, relatively low cost drilling and access to transportation and markets. It reaches from just south of Lubbock, Texas, to just south of Midland and Odessa, extending westward into the southeastern part of the adjacent state of New Mexico. The Permian Basin covers an area approximately 250 miles wide and 300 miles long. Various producing formations such as the Yates, San Andres, Clear Fork, Spraberry, Wolfcamp, Yeso, Bone Spring, Avalon, Canyon, Morrow, Devonian, and Ellenberger are all part of the Permian Basin, with oil and natural gas production ranging from depths from a few hundred feet to five miles below the surface. The Permian Basin is a sedimentary basin and is so named because it has one of the world's thickest deposits of rocks from the Permian geologic period. It is divided into Eastern and Western halves by the North-South trending Central Basin Platform. The greater Permian Basin comprises several component basins: of these, Midland Basin is the largest, Delaware Basin is the second largest, and Marfa Basin is the smallest (refer Figure 14). The towns of Midland (close to TEX's acreage) and Odessa serve as the headquarters for oil production activities in the basin and corporate activity is stepping up in the basin where it was the largest US onshore merger and acquisition (M&A) market in 2012 with valuations rising as resource plays are being de-risked, with the median transaction value struck at US$110k/boepd.

Production & Resource potential –1.3mmBOPD/ 50bn bbl oil potential

The Permian Basin is one of the most prolific and longest-producing oil basins in the United States and is the leading shale basin ahead of the Eagle Ford and Bakken shales. It accounts for approximately 18% of U.S. crude oil production and 23% of the nation's oil reserves. Current daily production is 1.3mmbbl oil and 4bcf gas and oil production is expected to grow to 1.8mmBOPD by 2016.



Source: Credit Suisse Estimates

Gas produced from the Permian is often liquids rich, attracting substantial premiums to the US 'dry gas' (methane) price. 29% of the estimated US oil reserve growth in the US is expected to come from the Permian Basin with 397 drilling rigs operating in the Permian Basin – the highest concentration of rigs in the world (increased from 129 rigs in 2005). Since it first started producing in 1921, Permian Basin oil production peaked at 2,085mmbopd in 1973, and gradually fell to 850mmbopd by 2007 before trending up again in the last few years to reach 892mmbopd in 2010. Original oil in place (OOIP) in the Permian Basin has been estimated to be 106 billion barrels of conventional oil reserves, of which less than 40 billion barrels have been produced to date. A substantial additional amount of residual conventional oil reserves still remain in the ground to be recovered. However, the greatest potential for the Permian Basin lies in the continuous discovery and development of unconventional plays, which can further contribute to future reserve growth. The Permian Basin remains a significant oil-producing area, producing more than 270mmbbls of oil in 2010 and more than 312mmbbl in 2012 as outlined in the table below:

Year	Oil Produced (mmbbl)
2005	253
2006	252
2007	251
2008	260
2009	260
2010	270
2011	295
2012	312

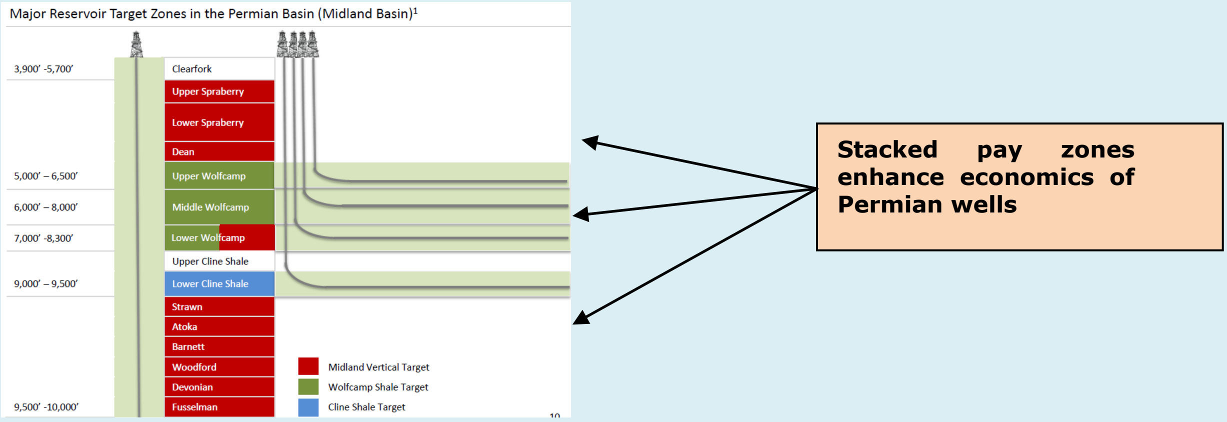
The Permian Basin has produced over 29 billion bbl of oil and 75 tcf of gas and it is estimated by industry experts to contain recoverable oil and natural gas resources exceeding what has been produced over the last 90 years. Recent increased use of enhanced-recovery practices in the Permian Basin has produced a substantial impact on U.S. oil production. The Permian Basin is the most coveted hydrocarbon basin in the US because of its low risk, oil-rich, stacked reservoir zones and is considered to have a resource potential of up to 50 Billion barrels of oil equivalent, second in the world only to the Ghawar Field in Saudi Arabia. Oil majors are highly active in the Permian Basin and the top 7 producers are outlined below.

Company Name	2012 Oil Production (millions of barrels)	Market Cap. 4 (US$ billion)	2013 Permian Basin Capex Budget (US$ billion)
Occidental Petroleum[2]	53.2	71.0	1.9
Pioneer Natural Resources	21.2	23.8	1.6
Apache Energy Corporation	19.2	31.1	2.4
Exxon Mobil	12.8	385.2	Not disclosed
Concho Resources	11.6	10.1	1.6
Chevron	11.2	230.9	Not disclosed
Sandridge[3]	8.7	2.6	Not disclosed

Geology

The Permian Basin had been a passive sedimentary basin covered by the Permian Sea until uplifts and subsidence during late Mississippian and early Pennsylvanian periods created the current configuration of the basins, shelves, and platforms. Major subdivisions and boundaries are identified as the Delaware Basin, Northwestern Shelf, Central Basin Platform, Midland Basin, and Eastern Shelf. The two sub-basins are asymmetrical in cross-section harboring thicker Permian sediments and more structurally deformed lower Paleozoic sediments near the edges of the Central Basin Platform.

The complicated structural and stratigraphic history allowed for the formation of traps for world class oil and gas deposits. The basin is filled with Paleozoic era sediments that reach a maximum thickness of over 29,000 feet with relatively thick sequences of Pennsylvanian and Permian strata containing both organically-rich source rocks and reservoir rocks. About 80% of significant sized oil reservoirs in the Permian Basin produce from depths less than 10,000 feet. Traditionally, the Permian Basin was referred to as "hard rock country" since carbonates have been the dominant type of reservoir rock accounting for approximately 75% of cumulative oil production to date. Successful application of unconventional technologies such as horizontal drilling, directional drilling, and multistage fracture completions helped industry to exploit hydrocarbons in lower permeability rocks such as shale and tight sands. Advances in geochemical analysis and seismic reservoir characterization techniques also allowed for large scale exploration of shale resources. These developments have led to further delineation of numerous shale and tight sand plays such as the Wolfcamp, Bone Spring and Avalon Shale, which transformed the Permian Basin into a new popular spot for North American shale development. In many areas of the Permian Basin, producing formations are vertically stacked on top of each other enabling oil companies to access multiple pay zones at different depths with a single well. The ability to commingle production from stacked pay zones significantly enhances well economics and makes it possible to produce reserves that would otherwise be classified as uneconomical. Much of the Permian Basin activity today focuses on the exploitation of stacked plays such as Wolfberry (Wolfcamp and Spraberry), Wolfbone (Wolfcamp and Bone Springs) and Wolffork (Wolfcamp and Clearfork). Refer the stratigraphic column below:



Wolfcamp shale – attractive economics

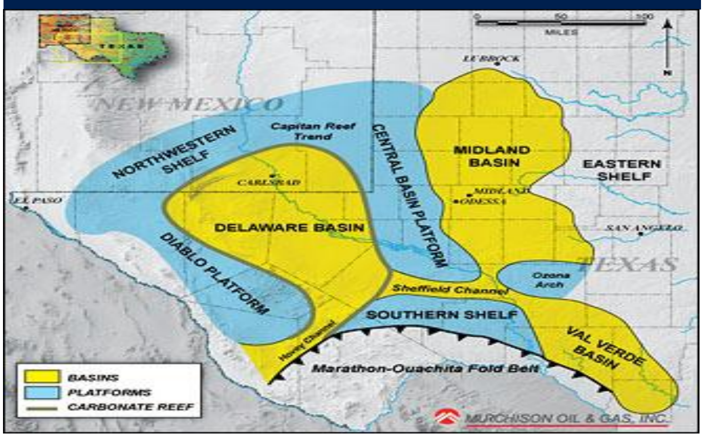
One such emerging unconventional play is the Wolfcamp Shale. The Wolfcamp formation of early Permian age is widely present across the Permian Basin at depths ranging from 5,000 to 15,000 feet. The Wolfcamp is a mixed lithology system composed of sand, shale and carbonates. While carbonates dominate shelf to proximal basin deposits, basinal deposits are predominantly sand and shale. Compared to other onshore U.S. shale plays such as the Bakken, Eagle Ford and Marcellus, the Wolfcamp Shale is a thicker target with a gross interval of 600–700 feet, and a net interval of 200–400 feet. Recovery factors are also higher at between 3-15% vs 3-10% for the Eagle Ford shale. Based on recent drilling results, many industry experts agree the Wolfcamp Shale could turn into one of the largest oil discoveries in U.S. history and so far Horizontally fractured wells in the shale plays (Cline, Wolfcamp, Wolfberry and Sprayberry) have shown an IP30 higher than 20kboepd (70% oil on average) – higher than the Bakken or Eagle Ford. Well costs average between US$7-9m. In summary highly productive oil wells with long producing lives underpin the economics of the Permian basin with Average 30 day IP rates of 608boepd and Estimated ultimate recoverable resources (EUR) of 141,000- 529,000boe

Source: US Geological Society, Belfer Centre for Science and International Affairs, Murchison Oil & Gas Inc. Texas Rail Road Commission

Figure 13: Location of Permian Basin

Source: TEX Presentation

Figure 14:Basins of the Permian



Source: Murchison Oil & Gas Presentation

Reserves and Resources

TEX has 2P reserves of 1.2mmboe, split 0.93mmbbl oil (80%) and 1.47bcf gas associated with the Fairway, East Chalkley and Merta projects. The reserves have been independently audited by Texas based reserves auditors. The majority of reserves are attributable to the Fairway project in the Permian basin from the Fusselman section and have increased by 887% over 2013 from the six well infill drilling programme which will be followed by a 9 well drilling programme in 2014. Additional resource potential exists in the emerging Wolfcamp and Cline Shales from TEX's Permian basin assets which are starting to gain increasing attention from mid cap E&P companies such as Pioneer and Apache who have multi-well programmes underway. We envisage TEX will generate reserves growth through an extensive infill drilling campaign and the conversion of the resource potential to Reserves (i.e. de-risked through successful exploration & appraisal) with additional upside from the unconventional resources. There is also a further potential 1.6mmboe resource potential across the portfolio. The estimates are detailed in Figure 15 below:

Figure 15: Net TEX Reserves & Resources

Project	**Proved Reserves**		**Probable Reserves**		**2P Reserves total**	
	Oil (mmbl)	Gas (bcf)	Oil (mmbl)	Gas (bcf)	Oil (mmbl)	Gas (bcf)
Fairway Project	0.42	0.50	0.42	0.50	0.84	1.00
East Chalkley Project	0.05	0.05	0.00	0.00	0.05	0.05
Merta & Section 28	0.01	0.26	0.04	0.17	0.05	0.43
Total	**0.48**	**0.80**	**0.46**	**0.67**	**0.93**	**1.47**
Total (mmboe)	**0.61**		**0.57**		**1.18**	

Source: TEX Company Announcements

*Reserves as calculated by Independent Reserve auditors TJ Smith & Company (East Chalkley & Fairway) and Michael Harper & Associates (Section 28 & Merta) as at 30 June 2013.

Shareholder Structure

TEX has 453.7m shares on issue and has one substantial shareholder, Investmet Ltd, who hold an 26% stake. Investmet is a private investment fund based in Perth with funds provided by high net worth investors. TEX directors and management hold approximately 8% of fully diluted shares outstanding. TEX has 41.2m options outstanding with expiry dates in 2014. The majority of the options (40.5m) are out-of-the-money and have an exercise price of 10cps and are set to expire in March 2014. Details are as follows:

Holder	**Number**	**Exercise Price**	**ExpiryDate**
Various	40,451,824	10c	31/3/14
Various	750,000	12c	24/10/14
Total	**41,201,824**		

Management

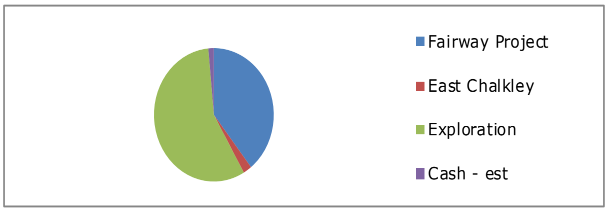
The TEX board and management team have a proven track record in developing emerging oil & gas companies. CEO Laurence Roe is the co-founder of the company and has over 30 yrs experience in the oil and gas industry and key members of the board and TEX US subsidiary bring E&P and strong resources capital markets experience to TEX. Key members of the team are as follows:

Name	Position	Key details
Mr Chris Rowe	Chairman (Non Executive)	▪Over 35 years of legal and commercial experience in the oil and gas and resources sector ▪Chairman of ASX listed Northern Star Resources (market cap A$517m) and Hawkesbridge Capital ▪Sits on the advisory committee of US-based Avalon Oil and Gas Production Partnership ▪Former Executive Chairman of Cultus Petroleum NL, Chairman of International Oilex (TSX) and Deputy Chair of UTS Energy (TSX) ▪BA, MA Economics and Law (Cambridge)
Mr Laurence Roe	Managing Director	▪Co-founder of Target Energy Limited ▪Petroleum professional with over 30 years global industry experience ▪Held senior and consulting positions with numerous Australian companies including Magellan Petroleum and Hardman Resources ▪Former Managing Director and Exploration Manager of Bounty Oil & Gas NL (ASX) ▪BSc
Mr Stephen Mann	Non Executive Director	▪Over 30 years of experience in public practice with over 25 years experience in the resources sector ▪Director of Investmet Limited, Non-Executive Chairman to Pegasus Metals Limited (ASX) and Altus Renewables Limited ▪Former Managing Partner of BDO Chartered Accountants and founder of BDO's Corporate Finance Division ▪CA, Fellow of Institute of Chartered Accountants of Australia
Dr Ralph Kehle	Chairman of TELA (USA Subsidiary)	▪Over 50 years industry experience. Credited with the discovery of multiple large oil and gas fields in USA. ▪President of Eichen Petroleum Management, Inc. Manager of Avalon Oil and Gas Production Partnership ▪Former CEO and Chairman of Hershey Oil Corp. He has also held senior positions with Exxon Mobil, a variety of E&P companies and was the founder of TKA Exploration Limited and OilTex International Limited ▪Former Adjunct Professor of Geological Sciences at the University of Texas (Austin) PhD, MS, BS (Hons)
Mr Don L. Systema	VP Finance (TELA)	▪Over 30 years financial, commercial and accounting experience in the oil and gas industry. ▪Previously served as CFO of Lucas Energy Inc. and multiple microcap OTC stock exchange traded oil and gas E&P companies. ▪Currently provides CFO-related services and public company SEC compliance filing assistance to both domestic and international entities with US-based oil and gas operations. ▪Bachelor of Science in Accounting, and CPA.
Mr Robert G Bonagurio	Reservoir Engineer (TELA)	▪Commenced career with Amoco Production Company then BP, and several independents in 1978. ▪Started a consulting practice in 2005 focused on technical & economic evaluation of a E&P projects ▪Over 30 years' experience in project engineering in the US, West Texas, Mid Continent (Oklahoma, Kansas and Arkansas) and the Gulf Coast states and in New Mexico, Colorado and Wyoming. ▪Experience has included drilling, production and reserve determination with majority emphasis on reservoir evaluation including , tight sand and resource plays in Texas and Colorado/Wyoming. Current active clients include Shell Oil, Seisgen Exploration and Target Energy USA. ▪Petroleum Engineering Degree.
Mr Ross Dinsdale	Business Development Manager	▪Previously Senior Associate at Azure Capital where he jointly led the oil and gas division focussed on small and mid-capitalisation oil and gas companies. ▪Also worked in London for Oriel Securities in their top-rated UK oil and gas equity research team focussed on coverage of the UK oil majors, and oilfield service companies. ▪Previously analyst with Goldman Sachs JBWere ▪CFA, Bachelor of Commerce, Graduate Diploma in Applied Finance and currently undertaking the Masters of Petroleum Engineering.

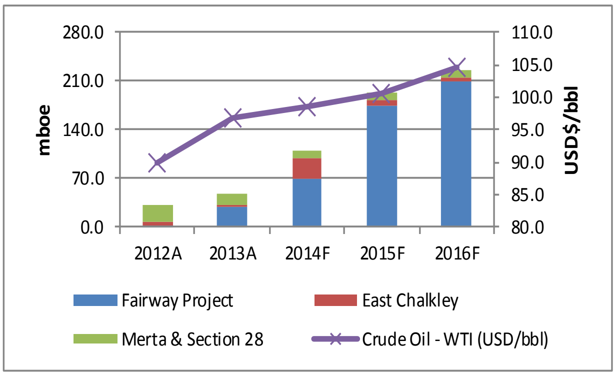
Target Energy Ltd		$0.04
Valuation	**A$m**	**A$/sh**
Fairway Project	27	0.06
East Chalkley	2	0.00
Merta & Section 28	2	0.00
Exploration	38	0.08
Corporate	(20)	(0.04)
Cash	1	0.00
Debt	(8)	(0.02)
Total @ 10% Discount Rate	**42**	**0.09**
Price Target		**0.09**

Price Target Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A$/sh)	0.08	0.09	0.11
Exchange Rate Sensitivity (A$/sh)	0.10	0.09	0.09
Gas Price Sensitivity (A$/sh)	0.09	0.09	0.09

Valuation Summary of Operating Assets



Production Summary



Reserves as at 30 June 2013

	Oil/NGL's (mmbbl)	Gas (bcf)	Total (mmboe)
1P Reserves	0.5	0.8	**0.6**
2P Reserves	0.9	1.5	**1.2**

Board Members

Name	Position
Laurence Roe	Managing Director
Christopher Rowe	Chairman
Stephen Mann	Non-Executive Director
Ralph Kehle	Chairman TELA USA Inc

Substantial Shareholders	Shares (m)	%
Investmet Ltd	117.8	26.0%

Year End June 30

Commodity Assumptions	2012A	2013A	2014F	2015F	2016F
Gold	1.02	0.99	0.96	0.94	0.91
Crude Oil - WTI (USD/bbl)	90.00	96.66	98.60	100.57	104.63
Gas Price Assumptions (US$	4.00	4.05	4.13	4.22	4.39

Production Summary	2012A	2013A	2014F	2015F	2016F
Gas (mmcf)					
Fairway Project	1.8	30.2	118.6	317.7	378.7
East Chalkley	5.4	3.7	5.8	10.1	10.1
Merta & Section 28	80.9	73.5	48.3	57.9	53.5
Total (mmcf)	**88.1**	**107.4**	**172.7**	**385.8**	**442.3**
Liquids (mbbl)					
Fairway Project	1.1	23.5	49.0	122.5	146.1
East Chalkley	6.1	3.3	29.6	4.9	4.9
Merta & Section 28	8.9	3.3	1.0	0.8	0.8
Total (mbbl)	**16.2**	**30.1**	**79.6**	**128.2**	**151.7**
Total (mboe)	**30.9**	**48.0**	**108.4**	**192.5**	**225.4**

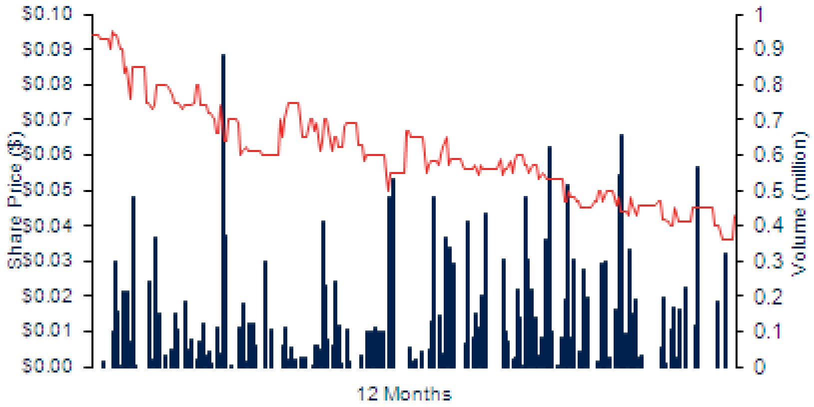
Profit & Loss (US$m)	2012A	2013A	2014F	2015F	2016F
Sales Revenue	**1.4**	**2.3**	**9.2**	**15.9**	**19.8**
Other Income	0.0	(0.0)	0.0	0.0	(0.0)
Operating Costs	0.6	0.6	1.9	3.4	4.6
Exploration Exp.	0.0	0.0	0.0	0.0	0.0
Corporate/Admin	1.7	2.0	2.1	2.1	2.2
Royalties	0.0	0.0	0.0	0.0	0.0
EBITDA	**(0.9)**	**(0.3)**	**5.2**	**10.3**	**13.1**
Depn & Amort	1.0	1.3	0.2	1.3	2.6
EBIT	**(1.8)**	**(1.5)**	**5.0**	**9.1**	**10.5**
Interest	0.1	0.1	0.1	0.3	0.1
Abnormals Pre-Tax	0.5	1.1	0.0	0.0	0.0
Operating Profit	**(2.5)**	**(2.8)**	**4.9**	**8.7**	**10.4**
Tax expense	0.0	0.0	1.5	2.6	3.1
Minorites	0.0	0.0	0.0	0.0	0.0
FX Adjustment	0.3	2.0	0.0	0.0	0.0
NPAT	**(2.1)**	**(0.8)**	**3.4**	**6.1**	**7.3**
Abnormal Adjustment	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	**(2.1)**	**(0.8)**	**3.4**	**6.1**	**7.3**

Cash Flow (US$m)	2012A	2013A	2014F	2015F	2016F
Adjusted Net Profit	(2.1)	(0.8)	3.4	6.1	7.1
+ Interest/Tax/Expl Exp	0.1	0.1	1.6	2.9	3.3
- Interest/Tax/Expl Inc	0.0	0.0	1.6	2.9	3.3
+ Depn/Amort	1.0	1.3	(1.4)	1.3	2.6
+/- Other	0.3	(2.1)	0.0	0.0	0.0
Operating Cashflow	**(0.7)**	**(1.4)**	**2.0**	**7.4**	**9.8**
- Capex (+asset sales)	4.0	5.8	9.2	7.4	8.8
- Working Capital Increase	0.0	0.0	0.0	0.0	0.0
Free Cashflow	**(4.8)**	**(7.3)**	**(7.2)**	**0.0**	**0.9**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0	0.0
+ Equity raised	3.6	8.1	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	0.0	7.8	(1.8)	(1.0)
+ Other	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	**(1.1)**	**0.9**	**0.6**	**(1.8)**	**(0.1)**
Exchange Rate effects	**0.0**	**(0.0)**	**0.0**	**0.0**	**0.0**
Cash at End Period	**0.7**	**1.5**	**2.1**	**0.4**	**0.3**
Net Cash/(Debt)	0.7	1.5	(5.7)	(5.6)	(4.7)

Balance Sheet (US$m)	2012A	2013A	2014F	2015F	2016F
Cash	0.7	1.5	2.1	0.4	0.3
Total Assets	10.0	17.7	28.4	32.9	35.0
Total Debt	0.5	0.0	7.8	6.0	5.0
Total Liabilities	1.2	1.0	9.8	8.1	7.5
Shareholders Funds	8.8	16.7	18.6	24.8	27.5

Ratios					
Net Debt/Equity (%)	na	na	30.5	22.8	17.1
Interest Cover (x)	-23.4	-11.2	42.5	27.8	85.4
Return on Equity (%)	na	na	18.3	24.7	26.5

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are dTEXrmined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.

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