TARGET ENERGY LIMITED ABN 73 119 160 360

Annual Report 2009

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Corporate Philosophy

Target Energy Limited was established in 2006 with the simple objective of creating a successful publicly-listed petroleum exploration and production company.

The company philosophy is to balance low and medium risk drilling, designed to build a stable revenue stream, with higher risk and higher impact drilling that has the potential to add significant value for shareholders.

We chose to initially explore in the United States due to the attractive operating environment in that country. We focused on established, prospective, areas that have a high level of activity. We then selected reputable operators who have a demonstrated track record of success and selected the best available prospects from their inventories to comprise our portfolio. The prospects are all mapped on 3D seismic and are close to existing infrastructure.

To date, this strategy has paid off, with Target Energy now an established producer in the United States.

Target will continue to actively source and drill a range of prospect types and will seek to expand its areas of operations as opportunities become available.

Target Energy Limited listed on the ASX on 27 November 2006.

Corporate Directory

Directors

Didier Murcia, B.Juris, LLB
Non Executive Chairman

Laurence Roe, B.Sc
Managing Director

Michael Martin, B.Sc (Hons), F.G.S.
Non Executive Director

Paul Lloyd, B.Bus, CA
Non Executive Director

Gerry McGann, B.Sc (Hons)
Non Executive Director

Company Secretary

Rowan Caren, B.Com, CA

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HLB Mann Judd
15 Rheola Street
WEST PERTH WA 6005

ASX Code

TEX (Shares)
TEXO (Options)

Chairman's Report

Dear Shareholders,

Notwithstanding a turbulent year for the industry and for the markets in general, your Company has maintained its focus on optimising its asset portfolio and securing new opportunities for growth.

While oil and gas production and revenue continue to flow from our Louisiana properties, your Company was pleased to recently announce its agreement to participate in drilling at the exciting Highway 71 prospect in Wharton County, Texas. Targeting up to 67.5 Bcf of gas and 1.1 million barrels of condensate, success at this quality high impact prospect can have a material and positive effect on your Company. Drilling at Highway 71 is expected to commence at the end of October 2009. Target will have a 25% working interest.

In addition, an independent Technical Specialist's review of our East Chalkley Oil Field during the year confirmed your Company's view of the potential of the field to deliver meaningful reserves to the Company. The partners in East Chalkley are currently progressing plans to further develop the field, with additional drilling expected to be underway later this year. The Company has a 25% working interest in East Chalkley.

Together, East Chalkley and Highway 71 demonstrate the scope of our activities, ranging from low risk oil field appraisal and development through to high impact exploration drilling. In the next 12 months, your Company will continue to seek new opportunities, while maintaining an optimal balance within its portfolio.

I would like to thank our management team, in particular Managing Director, Laurence Roe, for all the hard work over the past 12 months. I would also like to extend my thanks to our shareholders for their continued support. I look forward to meeting with you at the forthcoming Annual General Meeting.

Didier Murcia
Chairman

Highlights

Target continues to increase oil production.

✓	**25 May 2009**	Oil flows at over 150 BOPD from 3rd Marg Tex sand at SML (Snapper) #A-2
✓	**20 July 2009**	Gerry McGann joins Target Energy board.
✓	**31 August 2009**	Target announces participation in Highway 71 prospect
✓	**18 August 2009**	Drilling at SML (Snapper) #A-3 well encounters oil and gas.
✓	**19 September 2009**	Target to raise $2.7 million in Capital Raising

Corporate Overview

Laurence Roe
Managing Director

Despite the challenging economic times during the 2008-09 year, your Company has continued to pursue its strategy of growth whilst seeking to consolidate its production and revenue.

During the year, your Company was also obliged to defend itself against an unsolicited and hostile takeover bid. Over 94% of shareholders joined your Directors in rejecting the bid and while we were successful in that defence, it did take considerable time, effort and cash to deal with.

On a more positive note, additional drilling in our Section 28 program area has yielded another successful well. The SML (Snapper) #A-3 well was drilled in July and August with wireline log data indicating potential pay in the Camerina, Marg Tex and Hackberry sands. At time of writing, preparations are underway to complete the well for production.

The SML (Snapper) #A-1 and #A-2 wells continue to produce consistently, with the #A-2 well becoming an oil producer in May when the well was completed for production from the 3rd Marg Tex sand. The well is presently awaiting installation of pumping equipment, but prior to being taken offline had produced at rates averaging over 150 BOPD.

At our East Chalkley field, production remains stable at around 80-85 BOPD at our Pine Pasture #2 well and plans are advancing to undertake further drilling later this year to augment this production. We have also reviewed and approved proposals from the Operator to improve the economics of production by drilling a salt-water disposal well on the lease as well as running electrical power out to the production facility to reduce our fuel costs. This work is expected to be underway in Q4 of this year.

An independent Technical Consultant's review during the year has also added to our enthusiasm about the East Chalkley project. Potential development scenarios described in the review indicate the field's ability to be able to technically recover up to 1.7 mmBO in a most likely (P50) case and in a full development scenario addressing the field's upside (P10) potential, up to 4 mmBO are considered technically recoverable. While these results are contingent on the results of acquiring more data and drilling more wells (and also on economics), the East Chalkley Field retains the ability to be a solid performer for your Company.

In addition to the activity in our existing assets, Target Energy has also agreed to earn a 25% working interest in the Highway 71 prospect, scheduled to be drilled in Wharton County Texas in October. This is a high impact prospect with the potential to yield up to 67 Bcf of gas with 1.1 mmB of condensate.

Finally, in the last twelve months, as part of our prudent portfolio management, the Company withdrew from two projects (Catapult 3 and Parks North) whose timeframes had become untenably extended. To date, neither well has been drilled.

The Company continues to investigate opportunities both in the USA and in other regions.

Table 1 – Prospect and Project Status

Estimated Timing	Prospect	Location	Target Working Interest^	Status/Potential
April 07	Snapper A-1	Louisiana	25%	On production
Oct 2007	Snapper A-2	Louisiana	25%	On production
Dec 2007	Bayou Berard	Louisiana	15%	Shut in
June 2008	Pine Pasture #2	Louisiana	25%	On production
July 2009	Snapper A-3	Louisiana	25%	To be completed for production
Oct 2009	Highway 71	Texas	25%	67 Bcf + 1.1 MMBO*
Q4 2009	Pine Pasture #3	Louisiana	25%	250,000 BO
Q4 2009	Bayou Berard ST	Louisiana	15%	750,000 BO
2010	East Chalkley Field	Louisiana	25%	Ongoing Development

**Figures are operators' unrisked estimates and represent total prospect or field potential - additional drilling may be required to fully recover volumes.*

PROJECT REVIEW Drilling

Louisiana

St Martin Parish

SML #A-3 (Snapper A3 prospect - Target Energy 25% working interest)

SML (Snapper) #A-3 is located approximately 300m north of the producing SML (Snapper) #A-1 well in St Martin Parish, Louisiana (Figure 1). The well was designed to test a known fault segment for expected bypassed gas pay in the Hackberry A-1 and A-4 Sands.

The well commenced drilling on 30 June 2009, reaching a total depth of 3,198.3m. The rig was released on 22 August 2009.

Log analysis indicated approximately 11 metres potential net pay in the Camerina, 3rd Marg Tex and Hackberry A1 sands. The well is to be completed for production.

Target has a 25% Working Interest in zones above the Hackberry sands and a 21.625% Working Interest in the Hackberry sands as a result of participating in the well.

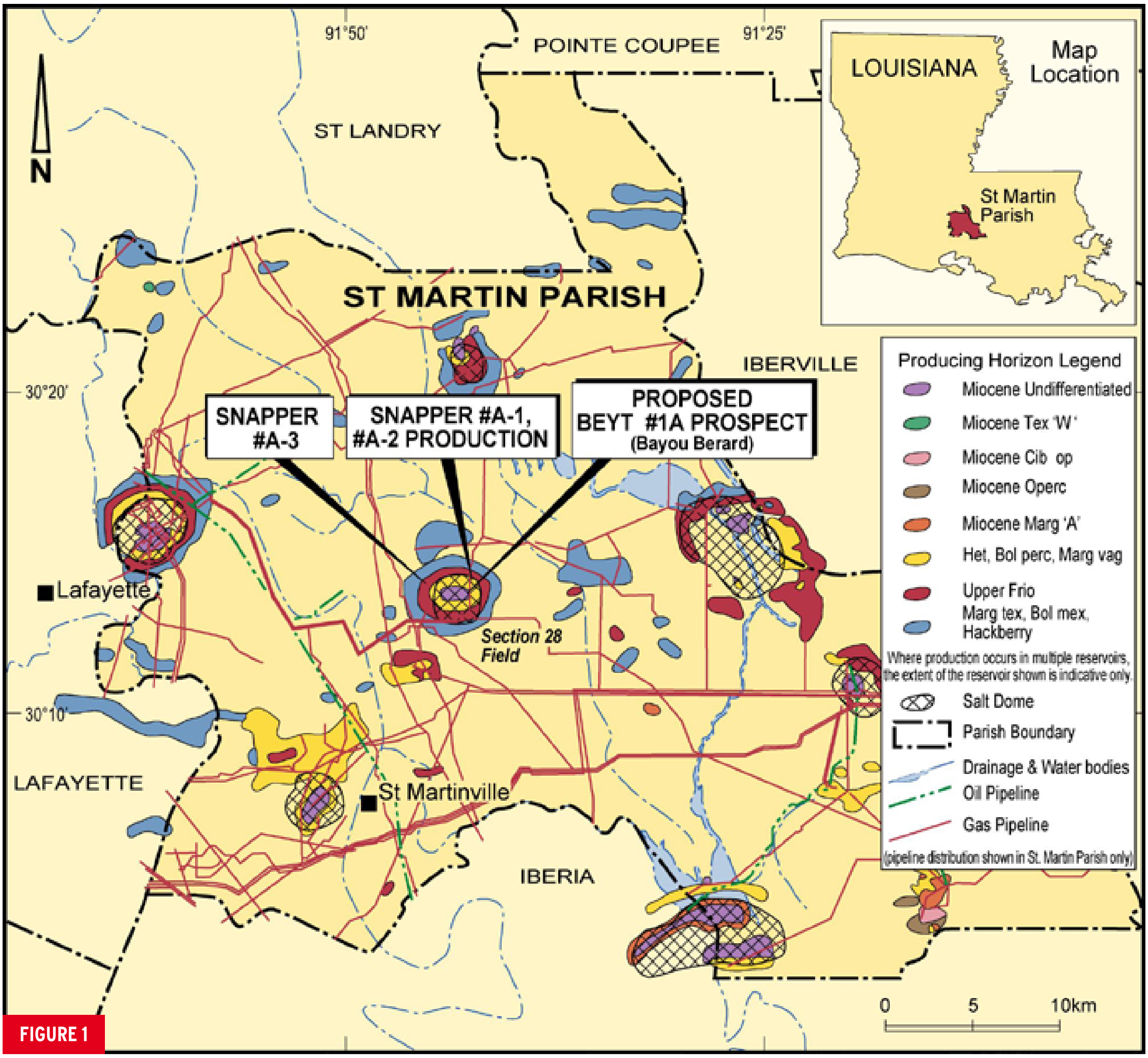


FIGURE 1

Section 28 Program Area – St Martin Parish, Louisiana

Exploration

Louisiana

St Martin Parish

Target has entered into agreements with Cypress Productions, Inc of Texas ("Cypress"), to drill a number of prospects in and around the Section 28 oil and gas field, located approximately 25 kilometres east of the city of Lafayette in Louisiana (Figure 1).

In 1999 the Section 28 field area was covered by the Catahoula 3D seismic survey, 88 square kilometres (34 square miles) of which was later purchased and reprocessed by Cypress. The reprocessing and subsequent remapping of the data has revealed a number of prospective drilling targets in which Target is involved.

Beyt #1 Side-track (Bayou Berard prospect - Target Energy 15% working interest)

Drilling at the Beyt #1 well at the Bayou Berard prospect in 2008 (Figure 1) intersected a major fault just before hitting the primary Marg Tex targets and the well was subsequently completed in the shallower Marg Vag sand.

The operator is presently reviewing the engineering aspects of drilling a sidetrack out from the existing wellbore to intersect the Marg Tex sands. An independent Technical Specialist has confirmed the 1st, 2nd and 3rd Marg Tex sands have total prospective resources of 990,000 barrels of oil.

Target Energy has estimated a 750,000 BO recovery based on the co-mingled production of the upper two zones (1st and 2nd Marg Tex), a potential production scenario described by the Technical Specialist. If the lowermost sand (3rd Marg Tex) is also productive, a greater recovery is possible.

The Beyt #1 sidetrack is presently scheduled for late Q4 2009.

Texas

Wharton County

Highway 71 Prospect (Target Energy 25% working interest)

On 31 August 2009, the Company announced that it had reached agreement with J. Charles Hollimon ("Hollimon") of San Antonio, Texas to acquire a 25% working interest in the "Highway 71" gas and condensate prospect, scheduled to be drilled by Hollimon in October 2009.

Located in Wharton County Texas, approximately 100 kilometres west-southwest of Houston (Figure 2), Highway 71 has the potential to recover up to 52.5 Billion cubic feet (Bcf) of gas and 367,000 barrels of condensate/light oil (BC) from its primary target, with a shallower secondary target holding the potential to recover up to 15 Bcf of gas and 750,000 BC.

The prospect is mapped on Hollimon's proprietary 3D seismic and is located in the vicinity of a number of producing oil and gas fields. The primary objectives at Highway 71 are the 1st and 2nd Meek (Middle Wilcox) sands, with the shallower Upper Wilcox sand as a secondary target. Estimates of the potential volumes were provided to the Company by the Operator, J. Charles Hollimon.

Drilling is presently scheduled to commence in October 2009 and is expected to take six weeks to drill to the programmed Total Depth of 4,115 metres (13,500 feet). The well will be drilled on a "turn-key" contract.

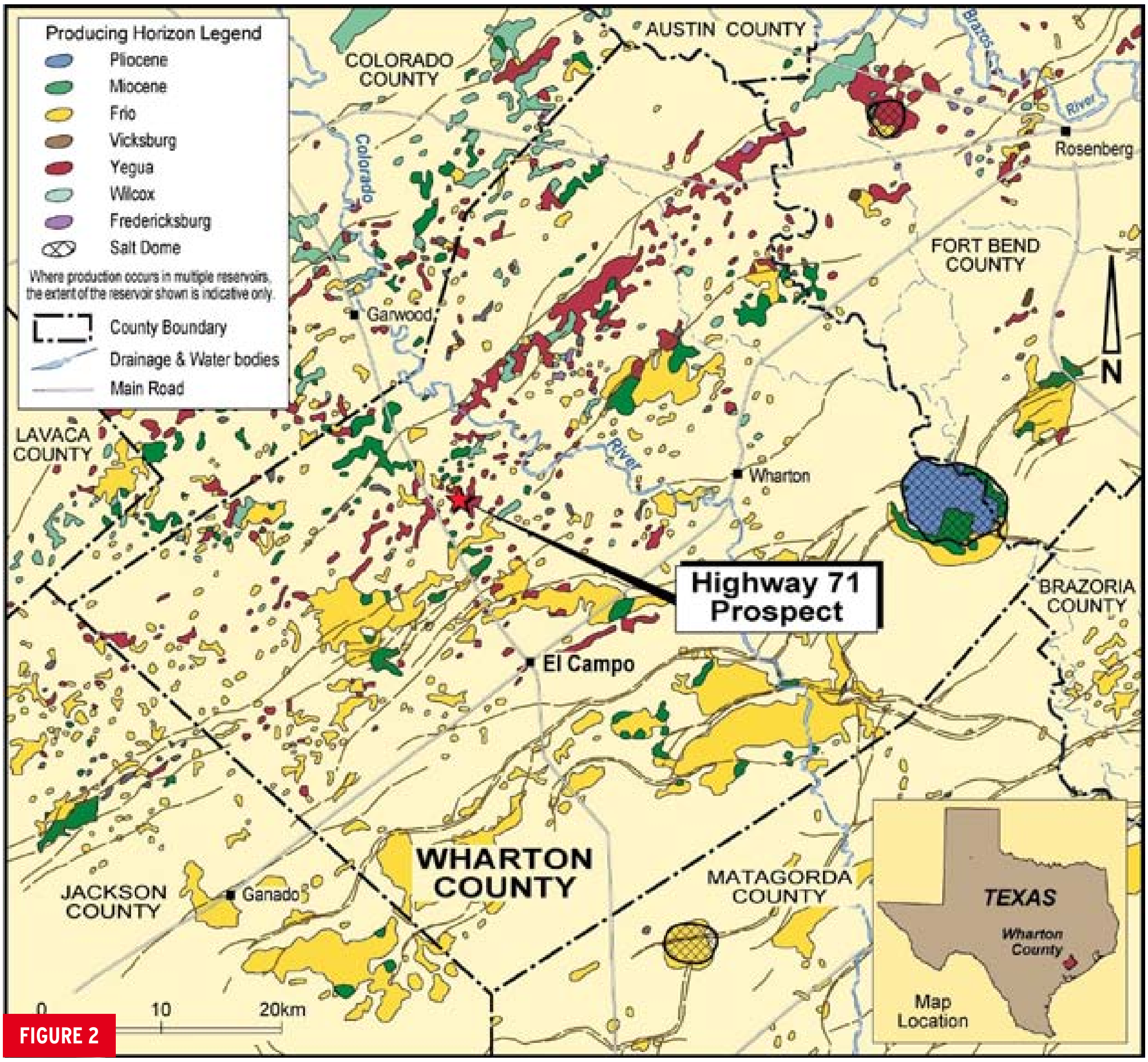


FIGURE 2

Highway 71 Prospect – Wharton County, Texas

Appraisal & Development

Cameron Parish

East Chalkley (Target Energy 25% working interest)

The East Chalkley project is an oil field appraisal and development program, approximately 33 kilometres southeast of the town of Lake Charles in Cameron Parish, Louisiana (Figure 3). The oil accumulation, on the east flank of the Chalkley Field, is a previously unidentified down-dip oil leg associated with the gas field. Target participated in the successful drilling of the Pine Pasture #2 well in 2008.

The drilling of a planned salt-water disposal well at East Chalkley is expected to be underway later in the year. The disposal well will substantially reduce operating costs for current and future producing wells in the field.

Additional appraisal and/or development drilling is also scheduled for later this year.

Production from the Pine Pasture #2 well is currently approximating 80-85 BOPD. An independent Technical Specialist has assigned P50 recoverable reserves/resources of 1.7 million barrels of oil (technically ultimately recoverable) to the field and, to 30 June 2009, Pine Pasture #2 has produced a gross 22,946 barrels of oil.

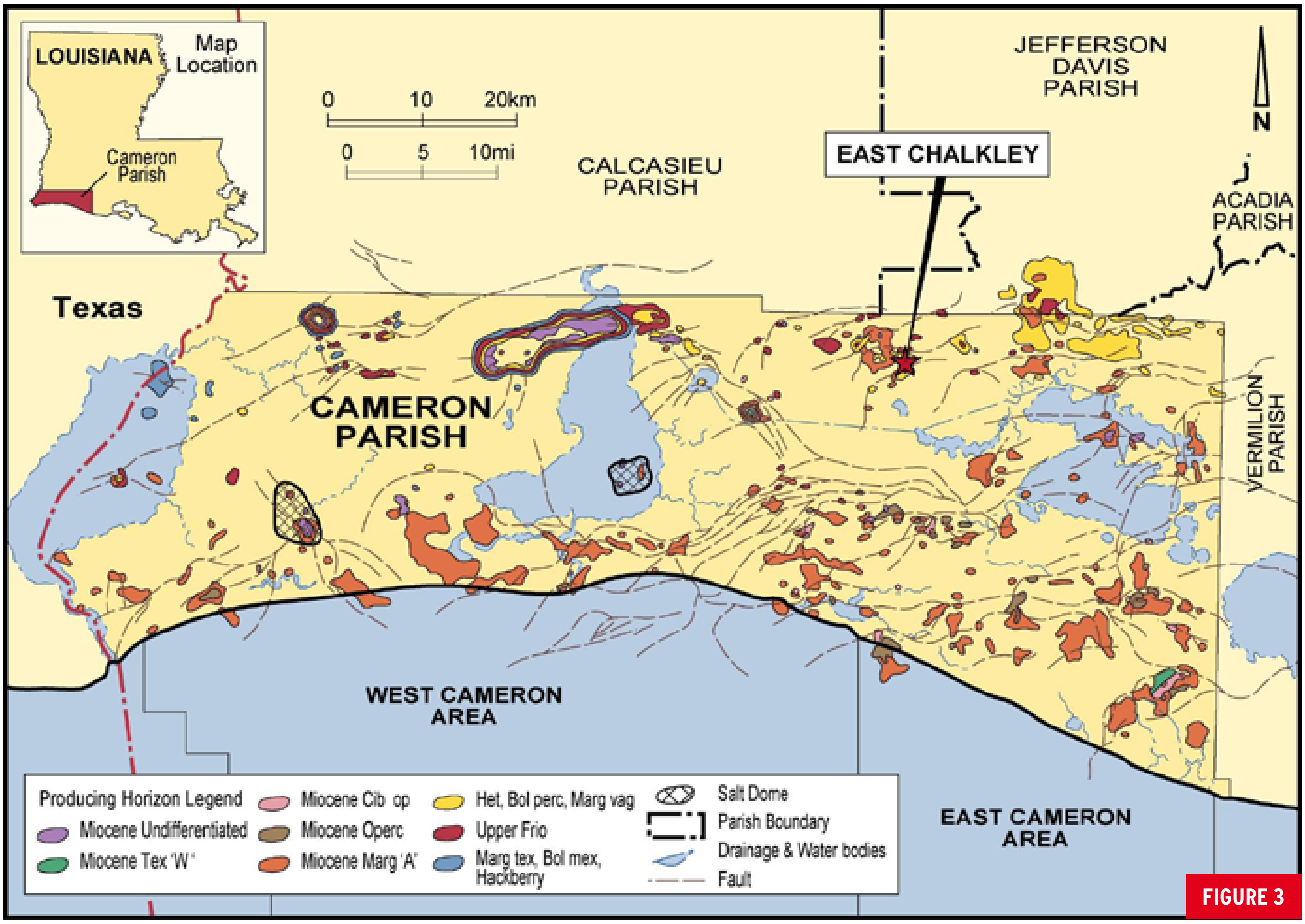


FIGURE 3

East Chalkley Oil field – Cameron Parish, Louisiana

Production and Reserves

Table 2 summarises Target's production for the 2008-2009 year and Figure 5 shows the monthly production in Barrels of Oil equivalent for the same period.

Actual sales from production in the period to 30 June 2009 (net of royalties and state taxes) was A$1.53 million.

Well	Production Commenced	TEX Working Interest	Production 1/7/08 to 30/6/09 (Gross)		Production 1/7/08 to 30/6/09 (Net to TEX WI)		Comment
			Oil (Bbl)	Gas (MCF)	Oil (Bbl)	Gas (MCF)	
Thoroughbred-1	5-Jun-07	25%	0	0	0	0	P & A
Garwood-1	20-Sep-07	25%	0	16,084	0	4,021	P & A
SML #A-1	2-Aug-07	25%	488	340,687	122	85,172	Flowing
SML #A-2	9-Feb-08	25%	10,338	327,967	2,585	81,992	Flowing
Beyt #1	3-May-08	15%	399	5,628	60	844	Shut in
Pine Pasture #2	24-July-08	25%	22,946	0	5,737	0	Flowing
Total			34,171	690,366	8,503	172,029	

Table 2 Target Energy 2008-2009 Production Summary

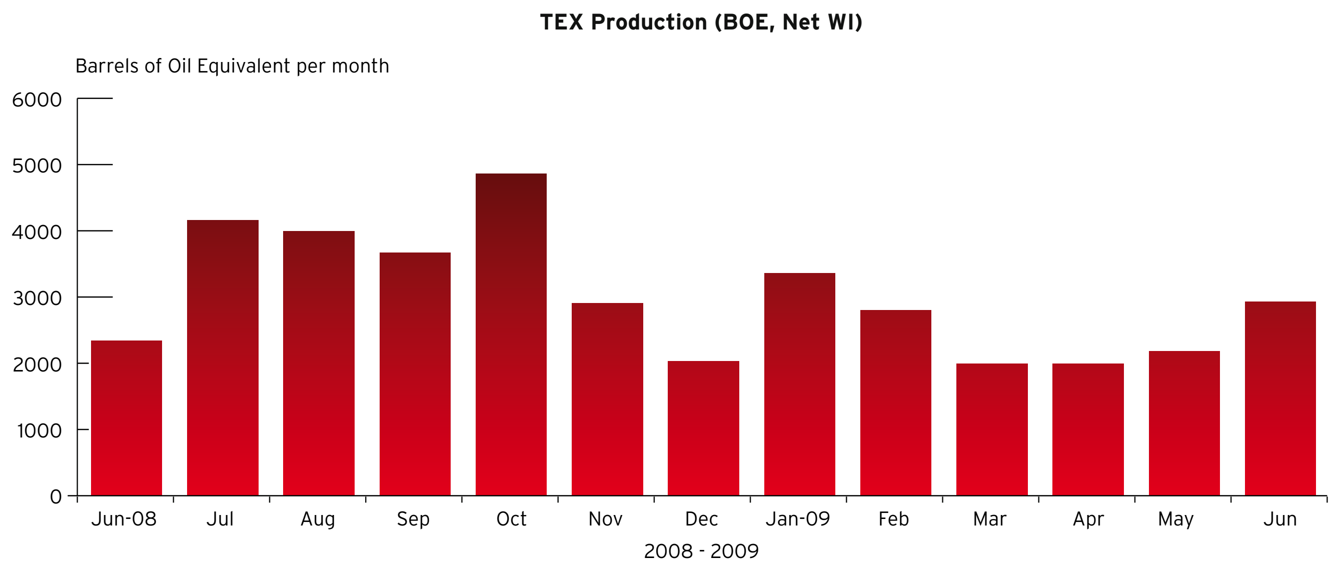


Figure 5 Target Energy Monthly Production (BOE)

NOTE: In accordance with ASX Listing Rules, any hydrocarbon reserves and/or drilling update information in this report has been reviewed and signed off by Mr Laurence Roe, B Sc, Managing Director of Target Energy, who is a member of the Society of Exploration Geophysicists and has at least 5 years experience in the sector. He consents to that information in the form and context in which it appears.

Texas

Colorado County

Thoroughbred No. 1 (Target Energy 25% working interest)

Thoroughbred produced 81.2 MMCF of gas prior to apparent depletion. The well was shut in on 8 May 2008. A later re-perforation of the producing sand did not yield additional gas and the well was subsequently plugged and abandoned.

Garwood No. 1 (Target Energy 25% working interest)

The Garwood No. 1 produced 57.8 MMCF of gas prior to depletion. The well was shut in on 16 March 2009 and has since been plugged and abandoned.

Louisiana

St Martin Parish

Snapper A-1 (Target Energy 25% working interest)

At 30 June 2009, the well had produced 732 MMCFG plus 2,718 barrels of condensate. The well is presently producing from the 3rd Marg Tex sand at a rate of approximately 0.53 MMCFGD with associated condensate. Remaining proved and probable reserves at 30/6/09 are 1.46 BCF plus 211,500 barrels of oil.

Snapper A-2 (Target Energy 25% working interest)

At 30 June 2009, the well had produced 417 MMCFG plus 11,143 barrels of oil and condensate. Snapper A-2 is currently completed for oil production from the 3rd Marg Tex sand. The well was temporarily shut-in in August 2009 awaiting the installation of pumping equipment. Average oil production in the month prior to shut-in was 159 BOPD.

Remaining proved and probable reserves at 30/6/09 are 0.3 BCF plus 200,800 barrels of oil.

Beyt #1 (Target Energy 15% working interest)

The well had produced 40.7 MMCFG plus 1,534 barrels of condensate until its shut-in on 21 July 2008. The well remains shut-in pending the drilling of a side-track bore to test deeper sands.

Cameron Parish

East Chalkley Field (Target Energy 25% working interest)

At 30 June 2009, the Pine Pasture #2 well had produced 22,946 barrels of oil. The well is presently producing approximately 83 BOPD with 380 BWPD.

Based on an estimated range of reserves for the Pine Pasture #2 well from 195,000 BO (2P) to 325,000 BO (3P), remaining reserves for the well, at 30/6/09, range from 172,000 BO to 302,000 BO.

Further drilling is planned to address the balance of reserves in the field.

Reserves

Target Energy's exploration and production assets in the East Chalkley Field and in the Section 28 Program area were audited during the year (Table 3).

- Target Energy's total estimated net reserves and resources are shown in the following chart as supported by the Independent Technical Specialist:

Target Energy
Net Reserves and Resources (Barrels Oil Equivalent)*

*Net TEX Working Interest and Net Revenue Interest

Proved and Probable
282,755 BOE

Possible
143,935 BOE

Contingent Resources (Best estimate)
157,550 BOE

Contingent Resources (High estimate)
312,360 BOE

Prospective Resources
80,640 BOE

Total Net Reserves and Resources
977,240 BOE

Table 3: Target Energy reserves and resources as at 31/12/08
(Source: Target Energy Target's Statement 14 May 09)

GLOSSARY OF TECHNICAL TERMS

Ac.ft , acre/feet	A measure of rock volume equivalent to 7,758 barrels or 1233.49 cubic metres.
AVO	Amplitude versus Offset, or the measure of the amplitude of a seismic reflection event for varying angles of incidence from a reflector, i.e., usually a rock interface. This is a seismic evaluation tool that can be diagnostic for lithology and the presence of hydrocarbons. In a Class 3 anomaly, the amplitude can flip from a positive reflection to a negative one as the distance between the seismic source and receivers increase. This is often a good indicator of gas in the Gulf Coast.
Basin	A depression in the earth's surface containing relatively thick deposits of sedimentary rocks.
BC	Barrels of Condensate.
Bcf, BCF	Billion cubic feet or 28.317 million cubic metres. A unit commonly used in quoting volumes of natural gas.
Bcfe, BCFe	Billions of cubic feet equivalent. A measure of a combined volume of gas and liquids, which is determined using the ratio of one barrel of oil, condensate, or natural gas liquids to 6 MCF of natural gas.
BO	Barrels of oil, a unit of measure commonly used in quoting liquid hydrocarbon volumes. 1 barrel = 42 U.S. gallons, 35 imperial gallons (approx), 159 litres (approx).
BOPD	Barrels of Oil per day. A measure of the rate of flow of oil.
BTU	British Thermal Unit. The energy required to raise one pound of water by 1º Farenheit. A measure of the richness of natural gas.
Casing	Large-diameter steel pipe lowered into an open borehole and cemented in place.
Completion	The process in which a well is enabled to produce hydrocarbons.
Condensate	A hydrocarbon phase, which separates out from natural gas and condenses into liquids when the hydrocarbons are produced.
DHC	Dry hole cost. The cost of drilling a well in the failure case, i.e. where no additional investment in casing, testing or well completion is incurred.
Dry Hole	A well in which no commercial hydrocarbons were discovered.
Exploration well	A well drilled into a previously undrilled or non-commercial trap to test for the presence of a new hydrocarbon accumulation.
Fault	Any brittle failure of rock layers along which rocks are displaced on one side relative to the other.
Field	A subsurface accumulation of hydrocarbons.
Fold	A bend in the rock strata.
Formation	A formal term used to reference a genetically related rock unit (e.g. the Hackberry Formation).
G & G	Geology and geophysics.
Gas kick	A significant increase in gas detector (Hot Wire) response from an increasing concentration of natural gas in the mud system.
Geology	The study of the earth and the processes affecting its crust.
Geophysics	The study of rock properties and statigraphy through the use of analytical methods involving various types of data collection and interpretation.
GIP	Gas in place. The volume of natural gas stored in a subsurface accumulation. Differs from recoverable reserves in that some of this gas will not be able to be produced.
GOR	Gas oil ratio, the ratio of produced gas to produced oil.
Henry Hub	Located in Louisiana, the Henry Hub is a major natural gas distribution centre, and is the key focal point of natural gas spot and future trading in the U.S. Henry Hub is a widely quoted index of natural gas prices.
Hydrocarbons	A compound of the elements hydrogen and carbon, in either liquid or gaseous form. Natural gas and petroleum are mixtures of hydrocarbons.
Horizon	A term describing a layer of rock, most typically associated with a seismic reflection.
IP	Initial production (rate).
Lead	An undrilled, and therefore hypothetical, hydrocarbon trap, which requires additional technical or commercial analysis before drilling can be justified.
Lithology	The physical, sedimentary, or mineralogical characteristics of a rock.
MBC	Thousands of barrels of condensate. A measure of condensate flow rates from a producing well.
MBO	Thousands of barrels of oil. A measure of oil flow rates from a producing well.
MCF, mcf	Thousand cubic feet. A widely quoted unit used for natural gas measurement.
MCFD	Thousands of cubic feet per day. A measure of a volume of gas.
md	A millidarcy. A unit of measure permeability, ie the ability of liquids to flow through a porous solid.
Measured Depth (MD)	The length of the wellbore, as if determined by a measuring stick. This measurement can differ from the true vertical depth in deviated or angled wellbores.
MMbls, mmbls	Million barrels. A measure of a volume of liquid.
MMBC, mmbc	Millions of barrels of Condensate.

MMBO, mmbo	Millions of barrels of oil.
MMCF, mmcf	Million cubic feet. A widely quoted unit used for natural gas measurement.
MMCFD, mmcfd	Million cubic feet per day. A measure of gas flow rates from a producing well.
MMCFG, mmcfg	Million cubic feet of gas. A measure of a volume of gas.
MMCFGD, mmcfgd	Millions of cubic feet of gas per day. A measure of the rate of flow of gas.
Perforate	To pierce holes through well casing within an oil or gas-bearing formation by means of a perforating gun lowered down the hole and fired electrically from the surface. The perforations permit production from a formation which has been cased off.
Permeability	A measure of the ability of liquids to flow through a porous solid.
Petroleum	(See Hydrocarbons)
Pipeline	A pipe through which any hydrocarbon or its products is delivered to an end user.
Porosity	The percentage of open pore space in a rock.
Possible Reserves	Those Unproved Reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable Reserves.
Probable Reserves	Those Unproved Reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.
Prospect	An undrilled, and therefore hypothetical trap whose technical and commercial uncertainties are sufficiently well understood and is of sufficient size and probability of success to justify drilling.
Proved or Proven Reserves	Those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.
Recoverable Reserves	That portion of the oil and/or gas in a reservoir that can be removed using currently available techniques.
Reserves	The volume of oil and gas that can be recovered at the surface. Generally used in the context of commerciality.
Reservoir	A porous rock unit in which hydrocarbons occur in an oil field.
Risk	A measure of uncertainty relating to the likelihood of finding hydrocarbons, or, the likelihood that any or all of the individual geological elements required for the accumulation of hydrocarbons is met.
Sandstone	A sedimentary rock composed primarily of sand size grains, usually quartz. A common hydrocarbon reservoir rock.
Seal	An impermeable rock unit that prevents hydrocarbons from escaping from the reservoir.
Seismic reflection	An event observed on seismic data that corresponds to a given rock layer in the subsurface
Sediment	Generally, water borne debris that settles out of suspension.
Sedimentary rock	A type of rock formed by aggregation of sediments.
Shale	A very fine-grained rock often thinly layered. An important seal rock.
Show	An indication while drilling that hydrocarbons are present in the well bore.
Source/source rock	An organic rich rock (typically shale) capable of generating hydrocarbons under certain conditions of temperature and pressure.
Spud	To commence drilling operations.
Stratigraphy	The study of the vertical and horizontal distribution of stratified rocks, with respect to their age, lateral equivalence and environmental deposition.
Structural trap	Generally, a hydrocarbon trap formed by dipping rock layers and/or faults.
Structure	A geological feature usually higher in elevation than the surrounding rock, formed by local deformation of the rock layers.
TCF	Trillion cubic feet or 28.317 billion cubic metres. A unit commonly used in quoting volumes of natural gas.
TD	Total Depth. The final depth reached in drilling the well.
Trap	A structure capable of retaining hydrocarbons.
Trend	A particular direction in which similar geological features are repeated.
TVD	True vertical depth. The vertical distance from a point in the well (usually the current or final depth) to a point at the surface, usually the elevation of the rotary kelly bushing (RKB). The TVD is independent of the actual wellbore path.
Unproved Reserves	Unproved Reserves are based on geological and/or engineering data similar to that used for Proven Reserves but technical, contractual, economic or regulatory uncertainties preclude such reserves being classified as Proven – Unproved Reserves can be classified as Probable Reserves and Possible Reserves.

Directors and Management

Didier Marcel Murcia,
B.Juris, LLB

Chairman

Didier Murcia is a corporate solicitor, with a resources law emphasis, and is chairman of Western Australian legal firm Murcia Pestell Hillard. Mr Murcia brings over 20 years corporate, commercial and legal experience to the board.

Mr Murcia`s other listed company directorships are with Gindalbie Metals Limited, Gryphon Minerals Limited and Glengarry Resources Limited, all listed on the ASX, as well as Aminex PLC, listed on the London Stock Exchange. He is also the Honorary Consul for the United Republic of Tanzania.

Laurence Edmund Roe,
B.Sc

Managing Director

Mr Roe is a petroleum professional with over 25 years experience gained in the industry both in Australian and international projects. He commenced his career with Santos Limited, later taking a senior technical position with Magellan Petroleum Australia Limited, where he was later appointed Exploration Manager. While with Magellan, he had substantial involvement with US and other international projects.

In 1997, Mr Roe left Magellan to start a consulting practice, providing services for numerous Australian explorers in domestic and international projects.

Mr Roe was appointed Exploration Manager for Bounty Oil & Gas NL in 2001, responsible for its portfolio of Australian and international acreage. He was later appointed as Managing Director.

His experience encompasses most Australian sedimentary basins, as well as the USA, New Zealand, Mauritania, Tanzania, Canada, Indonesia, Belize and Argentina.

Michael John Martin,
B.Sc (Hons), F.G.S.

Director

Michael Martin is a practising geologist and has been actively involved with international resources industries for more than 25 years. Mr. Martin began his professional career in Kuwait and later the western Mediterranean offshore oil fields of Spain, prior to joining the burgeoning North Sea oil boom in the early seventies. Following assignments in London with Atlantic Richfield and Cities Service, he joined Getty Oil in their Perth, Western Australia office. After his departure from Getty, Mr. Martin worked with the petroleum division of a major Australian Mining House.

Mr. Martin was a co-founder of Flare Petroleum N.L., and guided the technical advancement of the Australian assets of its Canadian successor company. He has served as a Director of Canadian listed Chariot Resources Ltd and Franklin Resources Ltd.

Paul Geoffrey Lloyd,
B.Bus, CA

Director

Mr Lloyd operates his own corporate consulting business, specialising in the area of corporate, financial and management advisory services. After commencing his career with an international accounting firm, he was employed for approximately 10 years as the General Manager of Finance for a Western Australian based international drilling contractor working extensively in Asia and Africa.

Mr. Lloyd is Chairman of ASX listed Beacon Minerals Limited and Non-Executive Director of Riviera Resources Limited.

Gerry McGann,
B.Sc (Hons)

Director

Gerry McGann has over 30 years experience in the upstream oil and gas industry, working on all five continents. As a petroleum geologist, he has been associated with oilfield discoveries totalling more than 200 million barrels in Australia, Middle East and the North Sea. While working for Occidental Petroleum Corporation in Oman, he was instrumental in increasing production from 32,000 barrels of oil per day (bopd) to 52,000 bopd in three years. Gerry was also one of only four Chief Scientists in the 30,000 strong Baker Hughes group; a position he held for four years prior to returning to Australia in 2001.

More recently, Mr McGann was a founding shareholder and Managing Director of Incremental Petroleum which was listed in 2005. He identified and purchased the seminal Selmo Oilfield in SE Turkey in 2005, increasing the production from 1,500 bopd to almost 2,000 bopd by the time the field was sold in March 2009. Gerry was also able to continually grow Incremental Petroleum's hydrocarbon reserves from nil in 2005 to over 16 million barrels of oil equivalent in 2009, one of the largest reserve bases in the sector on the ASX. This was achieved by enhancing the efficiency of Selmo, by the acquisition and development of the Edirne gas project in Western Turkey and also the acquisition of low risk oil and gas projects in California.

Rowan Caren,
B.Com, CA

Company Secretary

Mr Caren graduated with a Bachelor of Commerce (Accounting) from the University of Western Australia and is a member of the Institute of Chartered Accountants in Australia. He qualified with PricewaterhouseCoopers and worked for them in Australia and overseas for six years. He has since been directly involved in the exploration industry for a further 13 years, initially with a minerals explorer based in Perth but with operations in South America and Asia, for which he acted as an executive and company secretary. In 2004 he created a specialist company secretarial and advisory consultancy, Dabinett Corporate Pty Ltd. Dabinett Corporate provides financial and corporate services to several listed and unlisted companies involved in the resources, industrial and property sectors.

Stephen Morris, B.Sc, G. Dip. Petroleum Engineering

Development Advisor

Stephen Morris has 15 years experience gained in the industry both in Australia and on international projects. He commenced his professional career in 1992 with the petroleum division of Western Mining Corporation where his responsibilities included reserves and production forecasting. Subsequently he joined an international petroleum engineering and reserves certification consultancy, working on petroleum development and exploration projects both onshore and offshore. His specialist areas of expertise were gained in marginal field development and operating production operations in the Timor Sea, North West Shelf and South East Asia.

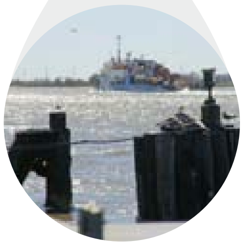
Mr Morris is a partner in an energy consulting business, specialising in the provision of engineering, geoscience, environmental and business development advisory services. Through his consultancy he has advised on projects for companies such as Bounty Oil & Gas, Carpathian Resources, Hardman Resources, Newfield Exploration, Nido Petroleum, Santos Ltd and Woodside Energy.

Mr Morris` international experience includes projects in New Zealand, Mauritania, Tanzania, UK North Sea, USA, Malaysia and the Philippines.

TARGET ENERGY LIMITED

Annual Financial Report

for the year ended 30 June 2009



Directors' Report

Your directors submit the annual financial report of the consolidated entity for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act, the directors report as follows:

Directors

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

Didier Marcel Murcia B.Juris, LLB (Chairman)

Didier Murcia is a corporate solicitor, with a resources law emphasis, and is chairman of Western Australian legal firm Murcia Pestell Hillard. Mr Murcia has over 20 years corporate, commercial and legal experience. He is also the Honorary Consul for the United Republic of Tanzania.

During the last three years, Mr Murcia has also served as a director of the following listed companies:

- Gindalbie Metals Limited*
- Gryphon Minerals Limited*
- Aminex PLC* listed on the London Stock Exchange.
- Glengarry Resources Limited*

** denotes current directorships*

Laurence Edmund Roe B.Sc (Managing Director)

Mr Roe is a petroleum professional with over 25 years experience gained in the industry both in Australian and international projects. He commenced his career with Santos Limited, later taking a senior technical position with Magellan Petroleum Australia Limited, where he was later appointed Exploration Manager. While with Magellan, he had substantial involvement with US and other international projects.

In 1997, Mr Roe left Magellan to start a consulting practice. He has since consulted for numerous Australian explorers, including Santos, Strike Oil and Icon Energy. More recently, he consulted to Hardman Resources Limited, working on their Mauritanian deep-water acreage at the time the major Chinguetti oil discovery was made. Mr Roe was appointed Exploration Manager for Bounty Oil & Gas NL in 2001, responsible for its portfolio of Australian and international acreage. He was later appointed as Managing Director.

His experience encompasses most Australian sedimentary basins, as well as the USA, New Zealand, Mauritania, Tanzania, Canada, Indonesia, Belize and Argentina.

Mr Roe has no other public company directorships and has not held any public directorships in the last three years.

Michael John Martin B.Sc (Hons), F.G.S. (Non Executive Director)

Michael J. Martin is a practising geologist and has been actively involved with international resources industries for more than 25 years. Mr Martin began his professional career in Kuwait and later the western Mediterranean offshore oil fields of Spain, prior to joining the burgeoning North Sea oil boom in the early seventies. Following assignments in London with Atlantic Richfield and Cities Service, he joined Getty Oil in their Perth, Western Australia office. After his departure from Getty, Mr Martin worked within the petroleum division of Western Mining Corporation. He later started his own consulting practice.

Mr Martin was a co-founder of Flare Petroleum N.L., and guided the technical advancement of the Australian assets of its Canadian successor company. He has served as a Director of Canadian listed Chariot Resources Ltd and Franklin Resources Ltd.

Mr Martin has no other public company directorships and has not held any public company directorships in the last 3 years.

Paul Geoffrey Lloyd, B.Bus CA (Non Executive Director)

Paul Lloyd is a Chartered Accountant with over 20 years commercial experience. Mr Lloyd operates his own corporate consulting business, specialising in the area of corporate, financial and management advisory services. After commencing his career with an international accounting firm, he was employed for approximately 10 years as the General Manager of Finance for a Western Australian based international drilling contractor working extensively in Asia and Africa.

Mr Lloyd was Company Secretary of the Company until 8 August 2008.

During the last three years, Mr Lloyd has also served as a director of the following listed companies:

- Beacon Minerals Limited*
- Riviera Resources Limited*

** denotes current directorships*

Gerard Joseph McGann B Sc (Honours) (appointed 21 July 2009) (Non Executive Director)

Mr McGann is a petroleum geologist with over 30 years experience in the upstream oil and gas industry, working on all five continents. He has been associated with oilfield discoveries totalling more than 200 million barrels in Australia, Middle East and the North Sea. While working for Occidental Petroleum Corporation in Oman, he was instrumental in increasing production from 32,000 barrels of oil per day (bopd) to 52,000 bopd in three years. Mr McGann was also one of only four Chief Scientists in the 30,000 strong Baker Hughes group – a position he held for four years prior to returning to Australia in 2001.

More recently, Mr McGann was a founding shareholder and Managing Director of Incremental Petroleum which was listed in 2005. He identified and purchased the seminal Selmo Oilfield in SE Turkey in 2005, increasing the production from 1,500 bopd to almost 2,000 bopd by the time the field was sold in March 2009.

During the last three years, Mr McGann has also served as a director of the following listed companies:

- Incremental Petroleum Limited until 30 June 2009

Rowan St John Caren, B.Com CA (Company Secretary)

Mr Caren graduated with a Bachelor of Commerce (Accounting) from the University of Western Australia and is a member of the Institute of Chartered Accountants in Australia. He qualified with PricewaterhouseCoopers and worked for them in Australia and overseas for six years. He has since been directly involved in the exploration industry for a further 13 years, initially with a minerals explorer based in Perth but with operations in South America and Asia, for which he acted as an executive and company secretary. In 2004 he created a specialist company secretarial and advisory consultancy, Dabinett Corporate Pty Ltd. Dabinett Corporate provides financial and corporate services to several listed and unlisted companies involved in the resources, industrial and property sectors.

During the last three years, Mr Caren has not served as a director of any listed companies.

Directors' interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Target Energy Limited were:

	Number of remuneration options (i)	Number of other options (ii)	Number of fully paid ordinary shares
Didier Murcia	-	550,000	1,050,000
Laurence Roe	2,000,000	2,700,000	5,200,000
Michael Martin	2,000,000	2,038,461	4,038,461
Paul Lloyd	2,000,000	1,237,566	2,362,566
Gerard McGann	-	-	3,950,161

(i) Exercisable at 20 cents on or before 30 June 2011.

(ii) These options are exercisable at 25 cents on or before 26 November 2009. These options were issued to all shareholders on the basis of 1 option for every 2 shares held as per the prospectus dated 9 March 2007. Further options were issued to all participating shareholders pursuant to the rights issue on the basis of 1 option for every share subscribed as per the prospectus dated 5 June 2008.

Share Options

Details of unissued ordinary shares under option are as follows:

	Number of options	Exercise price	Expiry date
Unlisted options	6,000,000	20 cents	30 June 2011
Unlisted options	750,000	12 cents	7 August 2011
Listed options	62,812,164	25 cents	26 November 2009

10,003 ordinary shares were issued during the financial year as a result of the exercise of options.

Dividends

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

Principal Activities

The principal activities of the entities within the consolidated entity during the year were the production of and exploration for oil and gas in the United States of America.

There have been no significant changes in the nature of those activities during the year other than those described below.

Review of operations

During the year, the Company continued to explore its oil and gas prospects in Texas and Louisiana. Snapper 1 and 2 and the Pine Pasture #2 well on the East Chalkley prospect produced steadily during the year. The company successfully defeated a hostile and opportunistic takeover bid launched by Blaze Asset Pty Ltd.

Operating results for the year

Net loss attributable to equity holders of the parent for the year ended 30 June 2009 was $2,134,575 (2008: $4,023,309). Basic loss per share was 2.1 cents (2008: 5.5 cents)

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the consolidated entity to the date of this report, not otherwise disclosed in this report.

Significant events after balance date

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years, other than as follows:

On 31 August 2009, the company announced the acquisition of a 25% working interest in the Highway 71 well in Wharton County Texas, which is to be drilled later this year. The Company will contribute US$215,000 in back costs and approximately US$907,000 in respect of drilling.

On 18 September 2009 the company announced that it would complete a placement of 7,400,000 ordinary shares and 7,400,000 options to acquire ordinary shares exercisable at 10 cents within 3 years. Total funds raised from the placement of shares at an issue price of 5.5 cents are expected to be $407,000 before costs.

On 18 September 2009 the company announced that it would complete a fully underwritten renounceable rights issue to shareholders on the basis of 2 new ordinary shares, each with a free attaching option to acquire an ordinary share exercisable at 10 cents within 3 years, for every five ordinary shares held. The rights issue will result in the issue of 44,688,468 ordinary shares and 44,688,468 options. Total funds raised by the rights issue at an issue price of 5.5 cents are expected to be approximately $2,457,688 before costs.

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Therefore, this information has not been presented in this report.

Environmental legislation

The consolidated entity as non-operator is not subject to any significant environmental legislation. In all projects the operator is responsible for ensuring compliance with environmental regulations.

Indemnification and insurance of Directors and Officers

The Company has agreed to indemnify the following current officers of the Company, Mr D Murcia, Mr L Roe, Mr M Martin, Mr P Lloyd, Mr G McGann and Mr R Caren, against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The total amount of premium paid was $19,990.

Remuneration report (audited)

The Remuneration Report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration
B. Details of remuneration
C. Service agreements
D. Share-based compensation

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited.

This report outlines the remuneration arrangements in place for directors and executives of Target Energy Limited (the "company").

A. Principles used to determine the nature and amount of remuneration

Remuneration philosophy

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives.

To this end, the Group embodies the following principles in its compensation framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Significant portion of executive compensation 'at risk', dependent upon meeting pre-determined performance benchmarks; and
- Establish appropriate, demanding performance hurdles in relation to variable executive compensation

Remuneration consists of fixed remuneration and variable remuneration.

Fixed Remuneration

Fixed remuneration is reviewed annually by the Board of Directors. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices.

Variable Remuneration

Messrs Roe, Murcia, Lloyd and Martin were involved in the creation of the company and therefore hold significant numbers of shares and options. The board does not consider it necessary at the present time to take additional steps to link the remuneration of Directors with the creation of shareholder wealth. Given the current structure, there exists a direct link between the creation of shareholder wealth performance and the financial rewards for the directors.

Remuneration Reviews

The Board of Directors of the Parent is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and all other key management personnel.

The Board of Directors assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. The compensation of non-executive directors for the period ending 30 June 2009 is detailed below.

Senior manager and executive director remuneration

Objective

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward executives for company, business unit and individual performance against targets set to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total compensation is competitive by market standards.

Compensation consists of the following key elements:

- Fixed Compensation;
- Variable Compensation; and
- Long Term Incentive (LTI).

The proportion of fixed compensation and variable compensation (potential short term and long term incentives) is established for each key management person by the Directors.

Fixed Compensation

Objective

Fixed compensation is reviewed annually by the Directors. The process consists of a review of individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans.

Variable Pay — Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner that aligns this element of compensation with the creation of shareholder wealth. As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure

LTI grants to key management personnel are delivered in the form of options.

B. Details of remuneration for the year ended 30 June 2009

		Primary benefits		Post employment	Equity	Total	%
Directors		Salary & Fees	Non Monetary Benefits	Superannuation	Options		Performance related
D Murcia	2009	53,583	-	-	-	53,583	-
	2008	38,000	7,218	-	-	45,218	-
L Roe	2009	298,165	-	26,835	-	325,000	-
	2008	231,000	7,218	20,790	-	259,008	-
M Martin	2009	36,000	-	3,240	-	39,240	-
	2008	40,030	7,218	3,603	-	50,851	-
P Lloyd	2009	50,000	-	4,500	-	54,500	-
	2008	80,000	7,218	2,880	-	90,098	-
Total Directors	2009	437,748	-	34,575	-	472,323	
	2008	389,030	28,872	27,273	-	445,175	
Specified Executives							
R Caren	2009	59,330	-	-	-	59,330	-
	2008	-	-	-	-	-	-
Total Specified Executive	2009	59,330	-	-	-	59,330	
	2008	-	-	-	-	-	

Note – Mr R Caren, the Company Secretary, was appointed on 8 August 2008.

C. Service agreements

Employment Contract

The Managing Director, Mr Laurence Roe is employed under contract. The current employment contract commenced on 10 November 2006 and terminates on 10 November 2009, at which time the Company may choose to commence negotiations to enter into a new employment contract with Mr Roe.

The main terms of the employment contract with Mr Roe are as follows:

- Remuneration of $325,000 pa inclusive of superannuation effective 1 July 2008.
- Salary reviewed each year at the discretion of the Company
- Either party is entitled to terminate the agreement by six months notice
- On redundancy the Company will be obliged to make a payment of two years' salary.

D. Share-based compensation

During the financial year there were no options granted as equity compensation benefits under a long-term incentive plan to key management personnel.

Directors' Meetings

The number of meetings of directors held during the year and the number of meetings attended by each director was as follows:

Directors during the year ended 30 June 2009	Full meetings of directors A	B
D Murcia	9	9
L Roe	9	9
M Martin	9	9
P Lloyd	9	9
G McGann*	-	-

A = Number of meetings held during the time that the director held office

B = Number of meetings attended in person or by conference call

* - Mr McGann was appointed on 21 July 2009

Auditor Independence and Non-Audit Services

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 audit of the financial report. This Independence Declaration can be found on page 30 and forms part of this directors' report for the year ended 30 June 2009.

Non-Audit Services

There were no non-audit services provided by our auditors, HLB Mann Judd.

Signed in accordance with a resolution of the directors.

Laurence Roe

Laurence Roe
Managing Director

Perth, 24 September 2009

Corporate Governance Statement

This statement outlines the main corporate governance practices in place throughout the year ended 30 June 2009, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of directors

The skills, experience and expertise of each director is separately disclosed in the Directors' Report. The names of the directors in office at the date of the Directors Report and the periods of their tenure are;

Name	Office	Date of Appointment	Period of Tenure (months)	Date of most recent re-election by members
Mr Didier Murcia	Chairman	1 September 2006	36	November 2007
Mr Laurence Roe	Managing Director	6 April 2006	41	November 2007
Mr Michael Martin	Director	6 April 2006	41	November 2008
Mr Paul Lloyd	Director	6 April 2006	41	November 2007
Mr Gerry McGann	Director	20 July 2009	1	Nil

Role of the board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. A statement of the functions reserved for the Board is contained in the Corporate Governance manual on the Company's website.

All functions not formally reserved for the Board are the domain of management.

Board Processes

The Board has established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and appropriate ethical standards.

The full Board schedules meetings, including strategy meetings and any extraordinary meetings, as necessary to address any specific significant matters that may arise. The agenda for meetings is prepared in conjunction with the Chairman and Company Secretary. Standing items include the management report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance.

Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

Composition of the Board

The composition of the Board is determined using the following principles:

- A minimum of three directors, with a broad range of expertise both nationally and internationally
- Directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management and financing of public companies
- The roles of Chairman and Managing Director are not to be exercised by the same individual; and
- A maximum period of three years or the third annual general meeting following their appointment (whichever is the longer), except for the Managing Director, after which time the director must retire but is eligible for re-election.

Board members have experience in the management of public companies. The board considers Messrs Murcia (the Chairman), McGann, Martin and Lloyd to be independent directors. Mr Martin was an executive of the Company until mid 2007 but has since operated as a non-executive. The board believes that the time lapsed since he ceased to be an executive and the role performed by Mr Martin is in the nature of an independent director. Mr Lloyd was an executive of the Company until mid 2008 but has since operated as a non-executive. The board believes that the time lapsed since he ceased to be an executive and the role performed by Mr Lloyd is in the nature of an independent director. Mr Roe (the Managing director) is not considered to be an independent director.

On this basis, the board currently has a majority of independent directors as recommended by the ASX Corporate Governance Council.

The directors consider that the current number of independent directors in the Company is appropriate for the effective execution of the board's responsibilities. The directors periodically monitor the need to appoint additional independent directors.

Process for Evaluating the Performance of Executives

In even years, the performance of executive(s), including the Managing Director, is appraised by the Board in the absence of the executive. The appraisal requires each director to complete a questionnaire provided by the Chairman which seeks input into the performance of the executive. Results are then collated, compared and discussed. A Board assessment is then delivered to the executive by the Chairman. The process in odd years is for the Chairman and the executive to meet informally to discuss the Chairman's evaluation of the executive's performance.

The evaluation process was undertaken in accordance with this process in the past 12 months.

Process for Evaluating the Performance of Directors

In even years, the performance of director(s), excluding the Managing Director, is appraised by each other director, in the absence of the affected directors. The appraisal requires each director to complete a questionnaire provided by the Chairman which seeks input into the performance of each other director and of the individual director. Results are then collated, compared and discussed. A Board assessment is then delivered to the director by the Chairman and, in the case of the Chairman, by the Board. The process in odd years is for the Chairman to meet informally with each director to discuss the Chairman's evaluation of the director's performance.

The evaluation process was undertaken in accordance with this process in the past 12 months.

Nomination Committee

The board considers that a formally constituted Nomination Committee is not appropriate as the board, as part of its usual role, oversees the appointment and induction process for directors, and the selection, appointment and succession planning process of the Company's executive officers. The board considers the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the board determines the selection criteria based on the skills deemed necessary. The board identifies potential candidates and may take advice from an external consultant. The board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders. This is disclosed in the Annual Report.

The chairman of the board continually reviews the effectiveness of the board, individual directors, and senior executives. The other directors have an opportunity to contribute to the review process. The reviews generate recommendations to the board, which votes on them. Directors displaying unsatisfactory performance are required to retire.

Remuneration Committee

The board considered that a formally constituted Remuneration Committee is not appropriate as the board, as part of its usual role, oversees the appointment and remuneration of directors and the Company's executive officers. Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The board may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration and equity-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to affect the broader outcome of maximising the Company's profitability. The remuneration structures take into account:
- Overall level of remuneration for each director and executive;
- The executive's ability to control the performance of the relevant area; and
- The amount of incentives within each executive's remuneration.

Shares and options can only be issued to Company Directors under a resolution at a general meeting of shareholders.

Non-Executive Directors may receive a base fee and can be remunerated by way of share and option issues approved under a resolution at a general meeting of shareholders.

The board has no established retirement or redundancy schemes. There are no unvested entitlements under equity based remuneration schemes.

Audit committee

The consolidated entity is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of a separate Audit Committee. Whilst the Company does not have a formally constituted Audit Committee, the board, as part of its usual role, undertakes audit related responsibilities including:

- Reviewing the annual and interim financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholders needs;
- Assessing corporate risk assessment processes;
- Assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence which is consistent with Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board;
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Securities Exchange and financial institutions.
- Reviewing the nomination and performance of the external auditor. The external audit engagement partner will be rotated every five years;
- Assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements.

The directors review the performance of the external auditors on an annual basis and normally meet with them during the year to:

- Discuss the external audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- Review the annual and half-year reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of result.

The board monitors the need to form an Audit Committee on a periodic basis.

Risk Management

The Company has in place a framework to safeguard Company assets and ensure that business risks are identified and properly managed. It is part of the board's oversight role to oversee the establishment and implementation of the risk management system, and to review the effectiveness of the company's implementation of that system. Due to the size of the company it does not have an internal audit function or a Risk sub-committee of the Board.

The Board monitor the management of risks on an ongoing basis and requires management to design and implement a risk management and internal control system to manage the entity's material business risks. Management is responsible for the identification, assessment, monitoring and management of material risk throughout the company. Management report to the Board annually to confirm how each of the company's material business risks is being managed. Management reported to the Board in July 2009 in respect of how material business risks are being managed. The Company's risk management framework is available in the Corporate Governance Manual on the website.

The company secretary and managing director have declared to the board that the Company's risk management system is working efficiently and effectively and that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity.

Conflict of Interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The board has developed procedures to assist directors to disclose potential conflicts of interest. Where the board believes that a significant conflict exists for a director on a board matter, the director concerned is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in Note 20.

Code of conduct

The Company has established a Code of Conduct which aims to develop a consistent understanding of, and approach to, the desired standards of conduct and behaviour of the directors, officers, employees and contractors (collectively, the Employees) in carrying out their roles for the Company. Through this Code, the Company seeks to encourage and develop a culture of professionalism, honesty and responsibility in order to maintain and enhance our reputation as a valued employer, business operator and "corporate citizen". The Code is designed to broadly outline the ways in which the Company wishes to conduct its business. The Code does not cover every possible situation that Employees may face, but is intended to provide Employees with a guide to taking a commonsense approach to any given situation, within an overall framework. The Code of Conduct is available on the Company's website.

Trading in consolidated entity securities by directors and employees

The Company has established a Security Trading Policy that is provided to all Directors and employees on commencement and is available on the Company's website.

The constitution permits directors to acquire shares in the Company. Company policy prohibits directors from dealing in shares whilst in possession of price sensitive information. Directors must notify the company secretary once they have bought or sold shares in the Company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange, the Company on behalf of the directors must advise the Australian Securities Exchange of any transactions conducted by them in shares and / or options in the Company.

Communication with Shareholders

The board has formally documented the Company's continuous disclosure procedures and established a Shareholder Communication Policy which is available on the Company's website.. The board, as part of its usual role, provides shareholders with information using comprehensive continuous disclosure processes which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX and issuing media releases.

Compliance with ASX Listing Rules Disclosure Rules

The Company has established a policy in respect of ensuring compliance with ASX Listing Rules in respect of Continuous Disclosure and this is available on the website.

Auditor's Independence Declaration

HLB Mann Judd
Accountants | Business and Financial Advisers

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Target Energy Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Target Energy Limited.

Perth, Western Australia
24 September 2009

L DI GIALLONARDO
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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Income Statements
FOR THE YEAR ENDED 30 JUNE 2009

		Consolidated Group		Parent Entity	
	Note	2009	2008	2009	2008
		$	$	$	$
Revenue	2	1,563,010	1,262,372	1,037,204	419,052
Other income	2	122,236	-	1,475,570	-
		1,685,246	1,262,372	2,512,774	419,052
Oil and gas production expenses & taxes		(363,604)	(195,224)	-	-
Accounting expense		(106,269)	(94,963)	(29,095)	(58,636)
Audit fees		(31,960)	(21,500)	(31,960)	(21,500)
Consultants		(180,139)	(46,553)	(180,139)	(17,465)
Takeover expense		(491,435)	-	(491,435)	-
Amortisation	9	(661,329)	(176,528)	-	-
Depreciation expense	2	(25,473)	(25,883)	(25,473)	(25,883)
Directors' fees		(136,416)	(102,000)	(136,416)	(102,000)
Employee benefits expense		(362,819)	(292,424)	(362,819)	(292,424)
Exploration costs	10	(695,553)	(1,656,313)	-	-
Foreign exchange loss	2	-	(254,256)	-	(862,148)
Insurance		(25,278)	(31,153)	(25,278)	(31,153)
Legal expenses		(12,097)	(16,548)	(8,599)	(16,548)
Listing fees		(45,046)	(39,719)	(45,046)	(39,719)
Office expense		(93,525)	(97,695)	(93,525)	(97,424)
Share-based payments	2	(15,175)	(12,500)	(15,175)	(12,500)
Other expenses		(93,963)	(75,089)	(46,262)	(64,054)
Promotions and advertising		(2,734)	(42,142)	(2,734)	(42,142)
Share registry expense		(35,343)	(15,393)	(35,343)	(15,393)
Travel and accommodation		(113,211)	(118,264)	(111,146)	(118,264)
Impairment of current assets	7	(328,452)	-	-	-
Impairment of non current assets	2	-	(1,971,534)	(2,248,647)	(3,220,728)
Loss before income tax expense		(2,134,575)	(4,023,309)	(1,376,318)	(4,618,929)
Income tax expense	3	-	-	-	-
Loss attributable to members of the parent entity		(2,134,575)	(4,023,309)	(1,376,318)	(4,618,929)
Basic loss per share (cents per share)	5	(2.1)	(5.5)		

The accompanying notes form part of these financial statements

Balance Sheets
AS AT 30 JUNE 2009

	Note	Consolidated Group 2009 $	Consolidated Group 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
CURRENT ASSETS					
Cash and cash equivalents	6	2,599,641	2,430,146	2,150,832	1,996,552
Trade and other receivables	7	257,265	266,125	55,628	21,792
Other financial assets	8	50,000	50,000	50,000	50,000
Total Current Assets		2,906,906	2,746,271	2,256,460	2,068,344
NON-CURRENT ASSETS					
Other financial assets	8	-	-	5,925,596	4,203,878
Property, plant & equipment	9	4,368,445	46,434	20,961	46,434
Deferred exploration expenditure	10	1,072,088	4,189,787	-	-
Total Non-Current Assets		5,440,533	4,236,221	5,946,557	4,250,312
TOTAL ASSETS		8,347,439	6,982,492	8,203,017	6,318,656
CURRENT LIABILITIES					
Trade and other payables	12	304,046	730,261	159,624	66,282
Total Current Liabilities		304,046	730,261	159,624	66,282
TOTAL LIABILITIES		304,046	730,261	159,624	66,282
NET ASSETS		8,043,393	6,252,231	8,043,393	6,252,374
EQUITY					
Issued capital	13	14,865,758	11,713,596	14,865,758	11,713,596
Reserves	14	574,405	(199,170)	556,315	541,140
Accumulated losses		(7,396,770)	(5,262,195)	(7,378,680)	(6,002,362)
TOTAL EQUITY		8,043,393	6,252,231	8,043,393	6,252,374

The accompanying notes form part of these financial statements

Cash Flow Statements

FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Group 2009 $	Consolidated Group 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
		Inflows/(Outflows)		Inflows/(Outflows)	
Cash Flows from Operating Activities					
Receipts from customers		1,466,777	786,999	-	-
Payments to suppliers and employees		(1,961,540)	(1,200,459)	(1,528,551)	(932,558)
Interest received		139,009	230,668	1,035,773	418,680
Net cash used in operating activities	6(ii)	(355,754)	(182,792)	(492,778)	(513,878)
Cash Flows from Investing Activities					
Purchase of property, plant and equipment		-	(1,747)	-	(1,747)
Exploration and development expenditure		(2,738,840)	(5,399,732)	-	-
Loans to controlled entities		-	-	(2,617,031)	(5,478,839)
Net cash used in investing activities		(2,738,840)	(5,401,479)	(2,617,031)	(5,480,586)
Cash Flows from Financing Activities					
Proceeds from issue of shares		3,380,938	2,571,355	3,380,938	2,571,355
Share issue expenses		(239,006)	(156,825)	(239,006)	(156,825)
Net cash provided by financing activities		3,141,932	2,414,530	3,141,932	2,414,530
Net increase in cash held		47,338	(3,169,741)	32,123	(3,579,934)
Cash at the beginning of the financial year		2,430,146	5,854,143	1,996,552	5,830,742
Effect of exchange rate changes on the balance of cash held in foreign currencies		122,157	(254,256)	122,157	(254,256)
Cash at the end of the financial year	6	2,599,641	2,430,146	2,150,832	1,996,552

The accompanying notes form part of these financial statements

Statements of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2009

Parent	Ordinary Shares	Accumulated Losses	Option Reserve	Share-Based Payments Reserve	Foreign Currency Translation Reserve	Total
	$	$	$	$	$	$
Balance at 1 July 2007	9,485,246	(1,383,433)	340,000	12,690	-	8,454,503
Shares issued during the year	2,561,125	-	-	-	-	2,561,125
Share-based payments	-	-	-	188,450	-	188,450
Share issue costs	(332,775)	-	-	-	-	(332,775)
Loss attributable to members of the parent entity	-	(4,618,929)	-	-	-	(4,618,929)
Balance at 30 June 2008	11,713,596	(6,002,362)	340,000	201,140	-	6,252,374
Balance at 1 July 2008	**11,713,596**	**(6,002,362)**	**340,000**	**201,140**	**-**	**6,252,374**
Shares issued during the year	**3,391,168**	**-**	**-**	**-**	**-**	**3,391,168**
Share-based payments	**-**	**-**	**-**	**15,175**	**-**	**15,175**
Share issue costs	**(239,006)**	**-**	**-**	**-**	**-**	**(239,006)**
Loss attributable to members of the parent entity	**-**	**(1,376,318)**	**-**	**-**	**-**	**(1,376,318)**
Balance at 30 June 2009	**14,865,758**	**(7,378,680)**	**340,000**	**216,315**	**-**	**8,043,393**

Consolidated Group	Ordinary Shares	Accumulated Losses	Option Reserve	Share-Based Payments Reserve	Foreign Currency Translation Reserve	Total
	$	$	$	$	$	$
Balance at 1 July 2007	9,485,246	(1,238,886)	340,000	12,690	(156,379)	8,442,671
Shares issued during the year	2,561,125	-	-	-	-	2,561,125
Share-based payments	-	-	-	188,450	-	188,450
Share issue costs	(332,775)	-	-	-	-	(332,775)
Loss attributable to members of the parent entity	-	(4,023,309)	-	-	-	(4,023,309)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(583,931)	(583,931)
Balance at 30 June 2008	11,713,596	(5,262,195)	340,000	201,140	(740,310)	6,252,231
Balance at 1 July 2008	**11,713,596**	**(5,262,195)**	**340,000**	**201,140**	**(740,310)**	**6,252,231**
Shares issued during the year	**3,391,168**	**-**	**-**	**-**	**-**	**3,391,168**
Share-based payments	**-**	**-**	**-**	**15,175**	**-**	**15,175**
Share issue costs	**(239,006)**	**-**	**-**	**-**	**-**	**(239,006)**
Loss attributable to members of the parent entity	**-**	**(2,134,575)**	**-**	**-**	**-**	**(2,134,575)**
Net exchange differences on translation of the financial reports of foreign subsidiaries	**-**	**-**	**-**	**-**	**758,400**	**758,400**
Balance at 30 June 2009	**14,865,758**	**(7,396,770)**	**340,000**	**216,315**	**18,090**	**8,043,393**

The accompanying notes form part of these financial statements

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

The company is an ASX listed public company, incorporated in Australia and operating in Australia and the United States of America. The principal activities were the exploration for and production of oil and gas in the United States of America.

(b) Adoption of new and revised standards

In the year ended 30 June 2009, the Group has adopted 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 2008. It has been determined by the Group 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 Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2009. As a result of this review 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 necessary to Group accounting policies.

(c) Statement of Compliance

The financial report was authorised for issue on 24 September 2009.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Basis of Consolidation

The consolidated financial statements comprise the separate financial statements of Target Energy Limited and its subsidiaries as at 30 June 2009 (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

(e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Share-based payment transactions:

The Group measures the cost of equity-settled share-based payments at fair value at the grant date using an option pricing model, taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 11.

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Oil & Gas Production Revenue

Oil & Gas production revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the buyer.

(g) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statements, cash and cash equivalents consist of cash and cash equivalents as defined above.

(h) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the income statements. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statements.

(i) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either
  (a) has transferred substantially all the risks and rewards of the asset, or
  (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(j) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(k) Foreign currency translation

Both the functional and presentation currency of Target Energy Limited is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the foreign operations, TELA Garwood Limited LP and TELA Louisiana Limited Inc, is United States dollars (US$).

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Target Energy Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(l) Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(m) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(n) Property, plant and equipment

Oil and gas properties include construction, installation or completion of infrastructure facilities such as pipelines and platforms, capitalised borrowing costs, transferred exploration and evaluation costs, and the cost of development wells.

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:
Office Equipment – over 5 to 8 years
Oil and Gas Properties – over the life of proved plus probable reserves (UOP)
Computer Equipment – over 2.5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(o) Financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(p) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(q) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(r) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(s) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(u) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date, They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(v) Share-based payment transactions

(i) Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using an option pricing model, further details of which are given in Note 11.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Target Energy Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 5).

(ii) Equity settled transactions – Options issued as part of rights issue:

The costs of these equity-settled transactions with participants in the 2007 share placement are measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by reference to the closing bid price at the date of issue.

The cost of these equity-settled transactions is recognised, together with a corresponding increase in equity, in share issue costs.

(w) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(x) Earnings/(loss) per share

Basic earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and

other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(y) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest are carried forward as an asset in the Balance Sheet so long as the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made.

Once an area of interest enters a production phase all capitalised expenditure in relation to that area of interest is transferred to Development Expenditure. Capitalised Development Expenditure is amortised from the commencement of production on a unit of production basis over recoverable reserves. Recoverable reserves are subject to review annually. The recoverable reserves are estimates calculated from available production and reservoir data and are subject to change. Once a proven and probable reserve is determined, all capitalised expenditure is transferred to Oil and Gas Properties.

(z) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

NOTE 2: REVENUE AND EXPENSES

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
(a) Revenue				
Oil and Gas income	1,424,132	1,031,332	-	-
Interest received - controlled entities	-	-	900,219	192,008
Interest received - other	138,878	231,040	136,985	227,044
Total revenue	1,563,010	1,262,372	1,037,204	419,052
Net foreign exchange gain	122,157	-	1,475,491	-
Other income	79	-	79	-
Total other income	122,236	-	1,475,570	-
	1,685,246	1,262,372	2,512,774	419,052

The loss from ordinary activities before income tax has been determined after:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
(b) Expenses				
Depreciation of non-current assets	25,473	25,883	25,473	25,883
Net foreign exchange losses	-	254,256	-	862,148
Impairment of current assets				
- impairment of other receivable	328,452	-	-	-
Impairment of non-current assets				
- impairment of loan to controlled entity	-	-	2,248,647	3,220,728
- impairment of deferred exploration expenditure	-	1,971,534	-	-
	-	1,971,534	2,248,647	3,220,728
Share-based payments	15,175	12,500	15,175	12,500
Contribution to employee superannuation plans	39,075	31,120	39,075	31,120

NOTE 3: INCOME TAX

(a) Income tax recognised in profit/loss

No income tax is payable by the parent or consolidated entities as they recorded losses for income tax purposes for the year.

(b) Numerical reconciliation between income tax expense and the loss before income tax.

The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Accounting loss before tax	(2,134,575)	(4,023,309)	(1,376,318)	(4,618,929)
Income tax benefit/(expense) at 30%	640,373	1,206,993	412,895	1,385,679
Non-deductible expenses:				
Foreign tax rate adjustment	83,683	208,341	-	-
Foreign exchange gain / (loss)	36,647	(76,277)	442,647	(258,644)
Option issue expense	(4,553)	(3,750)	(4,553)	(3,750)
Impairment of loan to controlled entity	-	-	(674,594)	(966,218)
Other non deductible expenses	(148,824)	(821)	(148,824)	(821)
Unrecognised tax losses	(607,326)	(1,334,486)	(27,571)	(156,246)
Income tax benefit attributable to loss from ordinary activities before tax	-	-	-	-
(c) Unrecognised deferred tax balances				
Tax losses attributable to members of the tax consolidiated group - revenue	13,268,755	10,855,351	2,298,032	1,976,723
Potential tax benefit at 30%	3,980,627	3,256,605	689,410	593,017
Deferred tax liability not booked				
Deferred exploration expenditure	(321,626)	(1,256,936)	-	-
Deferred tax asset not booked				
Amounts recognised in profit & loss				
-employee provisions	4,171	3,322	4,171	3,322
-other	41,449	3,600	22,679	3,600
Amounts recognised in equity				
- share issue costs	217,171	218,105	217,171	218,105
Net unrecognised deferred tax asset at 30%	3,921,792	2,224,696	933,431	818,044

A deferred tax asset attributable to income tax losses has not been recognised at balance date as the probability criteria disclosed in Note 1(l) is not satisfied and such benefit will only be available if the conditions of deductibility also disclosed in Note 1(l) are satisfied.

NOTE 4: SEGMENT REPORTING

Segment Information

The Group operates predominately in one geographical segment, for primary reporting, being the United States of America, and in one business segment for secondary reporting, being oil and gas exploration and production.

NOTE 5: EARNINGS/(LOSS) PER SHARE

	Consolidated Group	
	2009	2008
	Cents	Cents
Basic loss per share (cents per share)	(2.1)	(5.5)
The loss and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		
Loss for the year	(2,134,575)	(4,023,309)
Weighted average number of shares outstanding during the year used in calculations of basic loss per share	103,606,618	73,366,699
Diluted loss per share		
There is no dilution of shares due to options as the potential ordinary shares are not dilutive and are therefore not included in the calculation of diluted loss per share		

NOTE 6: CASH AND CASH EQUIVALENTS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Cash at bank	2,599,341	2,429,846	2,150,532	1,996,252
Cash on hand	300	300	300	300
	2,599,641	2,430,146	2,150,832	1,996,552

Cash at bank earns interest at floating rates based on daily bank deposit rates

NOTE 6: CASH AND CASH EQUIVALENTS (Continued)

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
(i) Reconciliation to Cash Flow Statement				
For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank.				
Cash and cash equivalents as shown in the cash flow statement are reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	2,599,641	2,430,146	2,150,832	1,996,552
(ii) Reconciliation of loss after income tax to net cash flows from operating activities:				
Loss after income tax	(2,134,575)	(4,023,309)	(1,376,318)	(4,618,929)
Depreciation	25,473	25,883	25,473	25,883
Amortisation	661,329	176,528	-	-
Share-based payments	15,175	12,500	15,175	12,500
Impairment of current assets	328,452	-	-	-
Impairment of non-current assets	-	1,971,534	2,248,647	3,220,728
Exploration expenditure written off	695,553	1,656,313	-	-
Net foreign exchange (gain)/loss	(122,157)	254,256	(1,475,491)	862,148
	(530,750)	73,705	(562,514)	(497,670)
Changes in operating assets and liabilities, net of the effects of purchase of subsidiaries:				
(Increase)/decrease in trade and other receivables	8,860	(230,086)	(55,055)	35,466
(Decrease)/Increase in trade and other payables	163,308	(28,960)	121,963	(54,223)
(Decrease)/Increase in employee benefits	2,828	2,549	2,828	2,549
Net cash outflow from operating activities	(355,754)	(182,792)	(492,778)	(513,878)

NOTE 7: CURRENT TRADE AND OTHER RECEIVABLES

Current				
Trade receivables	202,040	254,335	403	10,002
Prepayments	11,888	11,418	11,888	11,418
GST recoverable	41,534	-	41,534	-
Other receivables	330,255	372	1,803	372
Impairment of other receivables	(328,452)	-	-	-
	257,265	266,125	55,628	21,792

The average credit period on sales of goods and rendering of services is 30-90 days. No interest is charged.

NOTE 8: OTHER FINANCIAL ASSETS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Current				
Term deposit	50,000	50,000	50,000	50,000
	50,000	50,000	50,000	50,000

The term deposit is held as security by a bank, on behalf of the Company, in respect of a credit card facility for a total of $50,000.

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Non-Current				
Loan to controlled entities	-	-	11,579,837	7,609,472
Less: provision for impairment	-	-	(5,654,241)	(3,405,594)
	-	-	5,925,596	4,203,878

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group			
	Office Equipment	Computer Equipment	Oil & Gas Properties	Total
	$	$	$	$
Year ended 30 June 2009				
At 1 July 2008, net of accumulated depreciation	27,391	19,043	-	46,434
Additions	-	-	-	-
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	20,687	274	4,347,484	4,368,445
At 1 July 2008				
Cost	36,843	48,248	-	85,091
Accumulated depreciation	(9,452)	(29,205)	-	(38,657)
Net carrying amount	27,391	19,043	-	46,434
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	20,687	274	4,347,484	4,368,445

	Parent Entity			
	Office Equipment	Computer Equipment	Oil & Gas Properties	Total
	$	$	$	$
Year ended 30 June 2009				
At 1 July 2008, net of accumulated depreciation	27,391	19,043	-	46,434
Additions	-	-	-	-
Depreciation /amortisation for the year	(6,704)	(18,769)	-	(25,473)
At 30 June 2009, net of accumulated depreciation	20,687	274	-	20,961
At 1 July 2008				
Cost	36,843	48,248	-	85,091
Accumulated depreciation	(9,452)	(29,205)	-	(38,657)
Net carrying amount	27,391	19,043	-	46,434
At 30 June 2009				
Cost	36,843	48,248	-	85,091
Accumulated depreciation	(16,156)	(47,974)	-	(64,130)
Net carrying amount	20,687	274	-	20,961

The useful life of the assets were estimated as follows for 2009:

Office Equipment	5 to 8 years
Computer Equipment	2.5 years
Oil & Gas Properties	Units of production

NOTE 10: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Costs carried forward in respect of:				
Exploration and evaluation phase - at cost				
Balance 1 July	1,506,637	2,521,438	-	-
Effects of movements in foreign exchange	284,537	(307,171)	-	-
Expenditure incurred	2,069,788	5,779,895	-	-
	3,860,962	7,994,162	-	-
Expenditure written off	(695,553)	(1,656,313)	-	-
Impairment losses charged to profit or loss	-	(790,427)	-	-
Transferred to other receivables	(328,452)	-	-	-
Transferred to Oil & Gas Properties	(1,764,869)	-	-	-
Transferred to development phase	-	(4,040,785)	-	-
Balance 30 June	1,072,088	1,506,637	-	-

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Development phase - at cost				
Balance 1 July	2,683,150	-	-	-
Effects of movements in foreign exchange	506,723	-	-	-
Expenditure incurred	54,071	-	-	-
	3,243,944	-	-	-
Transferred from exploration and evaluation phase	-	4,040,785	-	-
Impairment losses charged to profit or loss	-	(1,181,107)	-	-
Provision for amortisation	-	(176,528)	-	-
Transferred to Oil & Gas Properties	(3,243,944)	-		
Balance 30 June	-	2,683,150	-	-
Total exploration and development expenditure	1,072,088	4,189,787	-	-

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.

NOTE 11: SHARE BASED PAYMENT PLANS

The expense recognised in the income statement in relation to share-based payments is disclosed in Note 2.

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

	2009 No.	2009 Weighted average exercise price	2008 No.	2008 Weighted average exercise price
Outstanding at the beginning of the period	8,800,000	21.6 cents	6,000,000	20 cents
Granted during the period	750,000	12 cents	2,800,000	25 cents
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	9,550,000	20.8 cents	8,800,000	21.6 cents
Exercisable at the end of the period	9,550,000	20.8 cents	8,800,000	21.6 cents

The outstanding balance as at 30 June 2009 is represented by:

- 6,000,000 unlisted options over ordinary shares with an exercise price of 20 cents each, exercisable on or before 30 June 2011.
- 2,800,000 listed options over ordinary shares with an exercise price of 25 cents each, exercisable on or before 26 November 2009. 2.55 million of these options were issued to participants in the 2007 share placement and 250,000 were issued in consideration for consulting services provided.
- 750,000 unlisted options over ordinary shares with an exercise price of 12 cents each, exercisable on or before 7 August 2011.

The fair value of options granted during the period was $15,175 (2008: $188,450).

The fair value of the equity-settled share options granted was estimated as at the date of grant using a Binomial option pricing model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model:	2009
Weighted volatility (%)	66
Risk-free interest rate (%)	6
Expected life of option (years)	3
Exercise price (cents)	12
Weighted average share price at grant date (cents)	6.3

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

NOTE 12: TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Current				
Trade payables	114,134	672,571	70,124	8,592
Employee entitlements	13,902	11,074	13,902	11,074
Accruals	138,162	15,167	75,598	15,167
GST payable	-	21,219	-	21,219
Other payables	37,848	10,230	-	10,230
	304,046	730,261	159,624	66,282

Trade payables are non-interest bearing and are normally settled on 30-day terms.

NOTE 13: ISSUED CAPITAL

104,321,170 (2008: 78,244,500) fully paid ordinary shares	14,865,758	11,713,596	14,865,758	11,713,596

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
(i) Ordinary shares - number	No.	No	No.	No.
At start of period	78,244,500	68,000,000	78,244,500	68,000,000
Rights Issue - 26,066,667 on 7th July 2008 at $0.13	26,066,667	-	26,066,667	-
Shares issued - 10,000 on 10 July 2008 at $0.25	10,000	-	10,000	-
Shares issued on option conversion - 3 on 1 December 2008 at $0.25	3	-	3	-
Shares issued - 10,200,000 on 21 December 2007 at $0.25	-	10,200,000	-	10,200,000
Shares issued - 44,500 on 20 June 2008 at $0.25	-	44,500	-	44,500
Balance at end of period	104,321,170	78,244,500	104,321,170	78,244,500

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
(ii) Ordinary shares - value	$	$	$	$
At start of period	11,713,596	9,485,246	11,713,596	9,485,246
Rights Issue - 26,066,667 on 7th July 2008 at $0.13	3,388,667	-	3,388,667	-
Shares issued - 10,000 on 10 July 2008 at $0.25	2,500	-	2,500	-
Shares issued on option conversion - 3 on 1 December 2008 at $0.25	1	-	1	-
Shares issued - 10,200,000 on 21 December 2007 at $0.25	-	2,550,000	-	2,550,000
Shares issued - 44,500 on 20 June 2008 at $0.25	-	11,125	-	11,125
Less share issue costs	(239,006)	(332,775)	(239,006)	(332,775)
Balance at end of period	14,865,758	11,713,596	14,865,758	11,713,596

NOTE 14: RESERVES

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Reserves	574,405	(199,170)	556,315	541,140

Reserves comprise the following:

(i) Option Premium Reserve

25 cent Options - number	No.	No	No.	No.
At start of period	33,955,500	34,000,000	33,955,500	34,000,000
Options issued - Rights issue 1 for 3, 26,066,667 on 15 July 2008 at $0.13	26,066,667	-	26,066,667	-
Exercise of options	(10,003)	(44,500)	(10,000)	(44,500)
Balance at 30 June 2009	60,012,164	33,955,500	60,012,167	33,955,500

25 cent Options - value	$	$	$	$
At start of period	340,000	340,000	340,000	340,000
Options issued - Rights issue 1 for 3, 26,066,667 on 15 July 2008 at $0.13	-	-	-	-
Exercise of options	-	-	-	-
Balance at 30 June 2009	340,000	340,000	340,000	340,000

(ii) Share-Based Payments Reserve

Number of options	No.	No	No.	No.
At start of period	8,800,000	6,000,000	8,800,000	6,000,000
Issue of 25 cent options dated 23 January 2008	-	2,550,000	-	2,550,000
Issue of 25 cent options dated 8 April 2008 - share based payments	-	250,000	-	250,000
Issue of 12 cent options dated 7 August 2008 - share-based payments	500,000	-	500,000	-
Issue of 12 cent options dated 16 February 2009 - share-based payments	250,000	-	250,000	-
Balance at 30 June 2009	9,550,000	8,800,000	9,550,000	8,800,000

Value of options	$	$	$	$
At start of period	201,140	12,690	201,140	12,690
Issue of 25 cent options dated 23 January 2008 - share based payments	-	175,950	-	175,950
Issue of 25 cent options dated 8 April 2008 - share based payments	-	12,500	-	12,500
Issue of options dated 7 August 2008 - share- based payments	14,700	-	14,700	-
Issue of options dated 16 February 2009 - share-based payments	475	-	475	-
Balance at 30 June 2009	216,315	201,140	216,315	201,140

(iii) Foreign Currency Translation Reserve				
At start of period	(740,310)	(156,379)	-	-
Currency translation differences	758,400	(583,931)	-	-
Balance at 30 June 2009	18,090	(740,310)	-	-

NOTE 14: RESERVES (Continued)

Nature and purpose of reserves

Share Based Payments Reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration and to third parties for services provided. Refer to Note 11 for further details.

Option Premium Reserve

This reserve records the proceeds from the issue of options at 1 cent as per the prospectus dated 9 March 2007.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the assets and liabilities of foreign subsidiaries into the presentation currency.

NOTE 15: FINANCIAL INSTRUMENTS

Consolidated

30 June 2009	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing: Within Year	1 to 5 Years	Over 5 Years	Non-interest bearing	Total
		$	$	$	$	$	$
Financial Assets:							
Cash & cash equivalents	3.3%	2,599,641	-	-	-	-	2,599,641
Trade and other receivables		-	-	-	-	257,265	257,265
Other financial assets (current)	4.0%	-	50,000	-	-	-	50,000
Total Financial Assets		2,599,641	50,000	-	-	257,265	2,906,906
Financial Liabilities:							
Trade and other payables		-	-	-	-	304,046	304,046
Total financial liabilities		-	-	-	-	304,046	304,046

Consolidated

30 June 2008	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing: Within Year	1 to 5 Years	Over 5 Years	Non-interest bearing	Total
		$	$	$	$	$	$
Financial Assets:							
Cash & cash equivalents	5.7%	2,430,146	-	-	-	-	2,430,146
Trade and other receivables		-	-	-	-	266,125	266,125
Other financial assets (current)	6.8%	-	50,000	-	-	-	50,000
Total Financial Assets		2,430,146	50,000	-	-	266,125	2,746,271
Financial Liabilities:							
Trade and other payables		-	-	-	-	730,261	730,261
Total financial liabilities		-	-	-	-	730,261	730,261

NOTE 16: EXPENDITURE COMMITMENTS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
(i) Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable - minimum lease payments				
- not later than 12 months	140,016	114,276	140,016	114,276
- between 12 months and 5 years	382,427	447,719	382,427	447,719
- greater than 5 years	-	-	-	-
	522,443	561,995	522,443	561,995

The company entered into an operating lease on 15 January 2007 for office space it occupies in West Perth. The term of the lease is 5 years.

(ii) Expenditure commitments contracted for:				
Exploration Tenements				
In order to maintain current rights of tenure to exploration tenements, the Company is required to outlay rentals and to meet the minimum expenditure requirements. These obligations are not provided for in the financial statements and are payable:				
- not later than 12 months	1,736,223	3,021,875	-	-
- between 12 months and 5 years	-	-	-	-
- greater than 5 years	-	-	-	-
	1,736,223	3,021,875	-	-

NOTE 17: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Target Energy Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	% Equity Interest 2009	% Equity Interest 2008	Investment $ 2009	Investment $ 2008
Target Energy Limited	Australia	100	100	-	-
TELA (USA) Inc	USA	100	100	-	-
TELA Louisiana Limited Inc	USA	100	100	-	-
TELA Texas Holdings Limited Inc	USA	100	100	-	-
its subsidiaries:					
TELA Texas General LLC	USA	100	100	-	-
TELA Texas Limited LLC	USA	100	100	-	-
its subsidiary					
TELA Garwood Limited LP[1]	USA	99	99	-	-

Note 1 - 1% owned by Tela Texas General LLC

NOTE 17: RELATED PARTY DISCLOSURE (Continued)

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
Amounts owed by Related Parties	$	$	$	$
Subsidiaries				
TELA Louisiana Limited Inc	-	-	10,738,835	6,966,618
TELA Garwood Limited LP	-	-	841,002	642,854
Total	-	-	11,579,837	7,609,472
Provision for impairment	-	-	(5,654,241)	(3,405,594)
	-	-	5,925,596	4,203,878
Amounts payable to Directors for Directors Fees	4,503	102,000	4,503	102,000

Outstanding balances at year-end are unsecured and settlement occurs in cash.

For the year ended 30 June 2009, the Group has made provision for the impairment of the loan to TELA Garwood Limited LP amounting to $375,408 (2008:$280,728) and TELA Louisiana Limited Inc amounting to $1,873,239 (2008: $2,940,000).

An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

Loans to controlled entities bear interest at the rate of between 3.0% to 4.6% (2008: 4.2% to 5.2%). Interest received from controlled entities during the year was $900,219 (2008: $192,008).

NOTE 18: EVENTS AFTER THE BALANCE SHEET DATE

There has not arisen in the interval between the end of the 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 other than:

On 31 August 2009, the company announced the acquisition of a 25% working interest in the Highway 71 well in Wharton County Texas, which is to be drilled later this year. The Company will contribute US$215,000 in back costs and approximately US$907,000 in respect of drilling.

On 18 September 2009 the company announced that it would complete a placement of 7,400,000 ordinary shares and 7,400,000 options to acquire ordinary shares exercisable at 10 cents within 3 years. Total funds raised from the placement of shares at an issue price of 5.5 cents are expected to be $407,000 before costs.

On 18 September 2009 the company announced that it would complete a fully underwritten renounceable rights issue to shareholders on the basis of 2 new ordinary shares, each with a free attaching option to acquire an ordinary share exercisable at 10 cents within 3 years, for every five ordinary shares held. The rights issue will result in the issue of 44,688,468 ordinary shares and 44,688,468 options. Total funds raised by the rights issue at an issue price of 5.5 cents are expected to be approximately $2,457,688 before costs.

NOTE 19: AUDITORS' REMUNERATION

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Amounts received or due and receivable by the auditors for:				
Audit or review of the financial reports of the Company	25,710	20,450	25,710	20,450

NOTE 20: DIRECTORS AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Didier Murcia	Chairman (non-executive)
Laurence Roe	Managing Director
Michael Martin	Director (non-executive)
Paul Lloyd	Director (non-executive)

(ii) Executives

Rowan Caren	Company Secretary

There were no changes in the Managing Director or key management personnel after reporting date and up to the date the financial report was authorised for issue, other than Mr McGann being appointed a non executive director on 21 July 2009.

(b) Compensation by category of Key Management Personnel for the year ended 30 June 2009

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Short-term employee benefits	497,078	417,902	497,078	417,902
Post-employment benefits	34,575	27,273	34,575	27,273
Share-based payments	-	-	-	-
	531,653	445,175	531,653	445,175

(c) Compensation options: Granted and vested during the year (Consolidated)

No options were granted to key management personnel during the year.

(d) Shares issued on Exercise of Compensation Options (Consolidated)

No options were exercised by key management personnel during the year.

(e) Compensation Option holdings of Key Management Personnel - Unlisted (Consolidated)

	Balance at the start of the year	Granted as remuneration	Options Exercised	Net change other	Balance at the end of the period	Vested and exercisable at 30 June 2009
Directors						
Didier Murcia	-	-	-	-	-	-
Laurence Roe	2,000,000	-	-	-	2,000,000	2,000,000
Michael Martin	2,000,000	-	-	-	2,000,000	2,000,000
Paul Lloyd	2,000,000	-	-	-	2,000,000	2,000,000
Gerard McGann[1]	-	-	-	-	-	-
	6,000,000	-	-	-	6,000,000	6,000,000
Specified Executives						
Rowan Caren	-	-	-	-	-	-
	-	-	-	-	-	-

Note 1 – appointed 21 July 2009

NOTE 20: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)

(f) Option holdings of Key Management Personnel - Listed (Consolidated)

	Balance at the start of the year	Granted as remuneration	Options Exercised	Net change other	Balance at the end of the period	Vested and exercisable at 30 June 2009
Directors						
Didier Murcia	500,000	-	-	50,000	550,000	550,000
Laurence Roe	2,500,000	-	-	200,000	2,700,000	2,700,000
Michael Martin	2,000,000	-	-	38,461	2,038,461	2,038,461
Paul Lloyd	1,125,000	-	-	112,566	1,237,566	1,237,566
Gerard McGann(1)	-	-	-	-	-	-
	6,125,000	-	-	401,027	6,526,027	6,526,027
Specified Executives						
Rowan Caren	-	-	-	-	-	-
	-	-	-	-	-	-

Note 1 - appointed 21 July 2009

(g) Shareholdings of Key Management Personnel (Consolidated)

	Balance at the start of the period	Granted as remuneration	On exercise of options	Net change other	Balance at the end of the period
Directors					
Didier Murcia	1,000,000	-	-	50,000	1,050,000
Laurence Roe	5,000,000	-	-	200,000	5,200,000
Michael Martin	4,000,000	-	-	38,461	4,038,461
Paul Lloyd	2,250,000	-	-	112,566	2,362,566
Gerard McGann[1]	-	-	-	-	-
	12,250,000	-	-	401,027	12,651,027
Specified Executives					
Rowan Caren	-	-	-	-	-
	-	-	-	-	-

Note 1 - appointed 21 July 2009

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(h) Loans to Key Management Personnel (Consolidated)

No loans have been provided to key management personnel during the year.

(i) Other transactions and balances with Key Management Personnel

No other transactions with key management personnel have occurred during the year, other than legal fees of $9,169 (2008: $7,727) paid to Murcia, Pestell Hillard, a firm in which Mr Didier Murcia is a partner. These fees were charged based on normal commercial terms and conditions.

NOTE 21: FINANCIAL RISK MANAGEMENT

The Consolidated entity's financial situation is not complex. Its activities may expose it to a variety of financial risks in the future: market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. At that stage the Consolidated entity's overall risk management program will focus on the unpredictability of the financial markets and seek to minimise potential adverse effects on the financial performance of the Consolidated entity.

Risk management is carried out under an approved framework covering a risk management policy and internal compliance and control by management. The Board identifies, evaluates and approves measures to address financial risks.

The Consolidated and the Parent entity hold the following financial instruments:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Financial assets				
Cash and cash equivalents	2,599,641	2,430,146	2,150,832	1,996,552
Trade and other receivables	257,265	266,125	55,628	21,792
Other financial assets	50,000	50,000	5,975,596	4,253,878
	2,906,906	2,746,271	8,182,056	6,272,222
Financial liabilities				
Trade and other payables	304,046	730,261	159,624	66,282

(a) Market risk

Cash flow and fair value interest rate risk

The Consolidated entity's main interest rate risk arises from cash deposits to be applied to exploration and development of areas of interest. Deposits at variable rates expose the Consolidated entity to cash flow interest rate risk. Deposits at fixed rates expose the Consolidated entity to fair value interest rate risk. During 2009 and 2008, the Consolidated entity's deposits at variable rates were denominated in Australian Dollars and United States Dollars.

As at the reporting date, the Consolidated entity had the following variable rate deposits and there were no interest rate swap contracts outstanding:

	2009		2008	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$	%	$
Deposit		2,649,341		2,479,846
Other cash available		300		300
Net exposure to cash flow interest rate risk	3.3%	2,649,641	5.7%	2,480,146

NOTE 21: FINANCIAL RISK MANAGEMENT (continued)

The Consolidated entity analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into account the renewal of existing positions.

Sensitivity – Consolidated and Parent entity

During 2009, if interest rates had been 50 basis points higher or lower than the prevailing rates realised, with all other variables held constant, there would be an immaterial change in post-tax profit for the year.

Foreign currency risk

As a result of significant operations in the United States and large purchases denominated in United States Dollars, the Group's balance sheet can be affected significantly by movements in the US$/A$ exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by holding US Dollars.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

100% of the Group's sales are denominated in a currency (USD) other than the functional currency of the operating entity making the sale, and all of the operating costs are denominated in USD.

The Group does not have a policy to enter into forward contracts and does not negotiate hedge derivatives to exactly match the terms of the hedged item.

At 30 June 2009, the Group had the following exposure to US$ foreign currency expressed in A$ equivalents, that are not designated in cash flow hedges:

	Consolidated Group	
	2009	2008
	$	$
Financial assets		
Cash and cash equivalents	949,526	710,326
Trade and other receivables	61,011	244,333
	1,010,537	954,659
Financial liabilities		
Trade and other payables	106,574	663,979

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date:

At 30 June 2009, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Loss Higher/(Lower)	
	2009	2008
	$	$
Consolidated Group		
AUD/USD +20%	(164,069)	(145,275)
AUD/USD - 20%	246,104	84,333
Parent Entity		
AUD/USD +20%	(83,453)	(25,027)
AUD/USD - 20%	125,179	14,715

NOTE 21: FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

The Consolidated entity has no significant concentrations of credit risk. Cash transactions are limited to high credit quality financial institutions.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures on outstanding receivables and committed transactions. In relation to other credit risk areas management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised at the beginning of this note.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Consolidated entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Consolidated entity will aim at maintaining flexibility in funding by accessing appropriate committed credit lines available from different counterparties where appropriate and possible. Surplus funds when available are generally only invested in high credit quality financial institutions in highly liquid markets.

The Consolidated and parent entity have no borrowing facilities.

(d) Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Company consists of equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in notes 13 and 14.

The Board reviews the capital structure on a regular basis and considers the cost of capital and the risks associated with each class of capital. The Company will balance its overall capital structure through new share issues as well as the issue of debt, if the need arises.

Directors' Declaration

1. In the opinion of the directors:

   a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001 including:

      (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year then ended; and

      (ii) complying with Accounting Standards and Corporations Regulations 2001; and

   b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the year ended 30 June 2009.

This declaration is signed in accordance with a resolution of the Board of Directors.

Laurence Roe

Laurence Roe
Director

24 September 2009

Independent Auditor's Report

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of
Target Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Target Energy Limited ("the company"), which comprises the balance sheet as at 30 June 2009, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year ended on that date, and the directors' declaration for both the company and the consolidated entity as set out on pages 31 to 62. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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HLB Mann Judd (WA Partnership) is a member of HLB International, a world-wide organisation of accounting firms and business advisers

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of Target Energy Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 22 to 24 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Target Energy Limited for the year ended 30 June 2009 complies with section 300A of the Corporations Act 2001.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Giallonardo.

L DI GIALLONARDO
Partner

Perth, Western Australia
24 September 2009

Shareholder Information

Distribution of Equity Securities

The distribution of members and their holdings of fully paid ordinary shares and listed options as at 15 September 2009 were as follows:

Shares held			No. of Shareholders	Percentage
1	-	1,000	27	0.003%
1,001	-	5,000	101	0.343%
5,001	-	10,000	131	1.065%
10,001	-	100,000	586	23.114%
100,001		and over	167	75.475%
Total			1,012	100.000%

Options held			No. of Optionholders	Percentage
1	-	1,000	7	0.008%
1,001	-	5,000	80	0.399%
5,001	-	10,000	51	0.656%
10,001	-	100,000	294	19.109%
100,001		and over	105	79.828%
Total			537	100.000%

Less than Marketable Parcel	Min Parcel size	Holders	Units
Shares	7,142	167	602,702
Options	166,667	468	17,279,736

Restricted Securities

There are no restricted securities

Twenty Largest Share Security Holders

The names of the 20 largest holders of fully paid ordinary shares as at 15 September 2009 are listed below:

Name	Number of Shares	Percentage
Blaze Asset Pty Limited	6,319,500	6.058%
UBS Wealth Management Australia Nominees Pty Ltd	5,776,316	5.537%
Petroe Exploration Services Pty Ltd	5,000,000	4.793%
Hosier Investments Pty Ltd	4,038,461	3.871%
Mr Gerard Joseph McGann	3,950,161	3.787%
Mr Andrew Trott Hopkins & Mrs Adrienne Janet Hopkins	2,100,000	2.013%
Motta Property Investments Pty Ltd	2,000,000	1.917%
Mrs Sharon Marie Lloyd	1,250,000	1.198%
Motta Property Investments Pty Ltd	1,150,000	1.102%
Reef Securities Limited	1,150,000	1.102%
Mr Gareth Keng Hoe Tan	1,125,878	1.079%
Mrs Maria Galeano <Compass A/c>	1,102,667	1.057%
Mrs Sharyn Lee Middleton	1,102,666	1.057%
HSBC Custody Nominees (Australia) Pty Limited	1,066,667	1.022%
MPH Resources Pty Ltd <MPH Property & Service A/c>	1,050,000	1.007%
Mr Gregory Steven Jakab & Miss Julie-Anne Jakab	1,024,762	0.982%
Mr Paul Geoffrey Lloyd & Sharon Marie Lloyd <Lloyd Super Fund A/c>	1,000,000	0.959%
Petrus Fredrikus Maria Belt & Anna Maria Catharina Belt	1,000,000	0.959%
Mr David Shane Miller	1,000,000	0.959%
Wise Plan Pty Ltd	1,000,000	0.959%
	43,207,078	41.42%

Twenty Largest Option Holders

The names of the 20 largest holders of options (exercisable at 25 cents on or before 26 November 2009), as at 15 September 2009 are listed below:

Name	Number of Options	Percentage
Mr David Shane Miller	5,000,000	7.960%
Mr Gregory Steven Jakab & Miss Julie-Anne Jakab	4,962,836	7.901%
UBS Wealth Management Australia Nominees Pty Ltd	4,606,150	7.333%
Petroe Exploration Services Pty Ltd	2,500,000	3.980%
Hosier Investments Pty Ltd	2,038,461	3.245%
Mr Bruce Myles	1,894,851	3.017%
Minsk Pty Ltd	1,399,167	2.228%
Mr Hancheng Cai & Mrs Hongwei Fu	1,225,167	1.951%
Mr Cameron Hutton	1,072,700	1.708%
Mr Andrew Trott Hopkins & Mrs Adrienne Janet Hopkins	1,000,000	1.592%
Wise Plan Pty Ltd	900,000	1.433%
Mr Cleanthe Hatziladas	847,704	1.350%
Mr Richard James Sargeant	636,034	1.013%
Archem Trading (NZ) Ltd	635,875	1.012%
Mrs Sharon Marie Lloyd	625,000	0.995%
Mr David Anthony O'Dea & Ms Catherine Anne Diamantes	625,000	0.995%
MPH Resources Pty Ltd <MPH Property & Service A/c>	550,000	0.876%
Mr John Andrew Simon	525,449	0.837%
Mr Giovanni Spagnolo <Marcus Deluca A/c>	514,502	0.819%
Mr Anthony James Dunn	500,000	0.796%
	32,058,896	51.04%

The names of any holder of unlisted options (exercisable at 20 cents on or before 30 June 2011) holding 20% or more of the class of unlisted options, as at 15 September 2009 are listed below:

Name	Number of Options	Percentage
Laurence Roe	2,000,000	33.33%
Michael Martin	2,000,000	33.33%
Paul Lloyd	2,000,000	33.33%
Total	6,000,000	100.00%

The names of any holder of unlisted options (exercisable at 12 cents on or before 7 August 2011) holding 20% or more of the class of unlisted options, as at 15 September 2009 are listed below:

Name	Number of Options	Percentage
Ron Krenzke	500,000	66.67%
Stephen Morris	250,000	33.33%
Total	750,000	100.00%

Substantial Shareholders

The Company's Register of Substantial Shareholders, prepared in accordance with Chapter 6C of the Corporations Act 2001, recorded the following information as at 15 September 2009:

Holder Name	Number of Shares	Class of Share	Percentage of Issued Capital
Blaze Asset Pty Limited	6,319,500	ORD	6.058%

The most recent notice of substantial shareholding lodged by the shareholder dated 5 June 2009 disclosed an interest in 5,354,095 ordinary shares representing 5.14% of the issued capital.

Voting Rights

Under the Company's constitution, all ordinary shares carry one vote per share without restriction. Options over ordinary shares do not carry any voting rights.

Company Secretary

The Company Secretary is Mr Rowan Caren.

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CROWN
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