TARGET ENERGY LIMITED

Annual Report 2007

TARGET ENERGY LIMITED ABN 73 119 160 360

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 three discoveries in our first four wells and with two of those wells already in production. This has allowed Target to achieve producer status within seven months from listing on the ASX.

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 Australian Stock Exchange on 27 November 2006.

Photos on pages 4/5, 8, 10, 13, 18 provided by Cypress Productions Inc. Photo on page 6 supplied by Everest Resource Company.

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Non Executive Director
Paul Lloyd, B.Bus, CA
Non Executive Director

Company Secretary
Paul Lloyd

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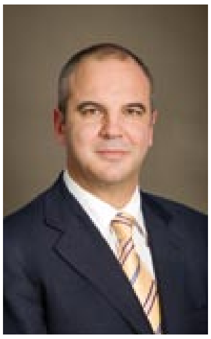
TEX (Shares)
TEXO (Options)

CHAIRMAN'S REPORT



I have great pleasure in presenting to you the first Annual Report for Target Energy Limited, after what has been a very exciting and successful 12 months.

Target was formed just over a year ago with the specific intention of exploring for hydrocarbons in the United States, one of the best operating environments for oil and gas. An exciting portfolio of prospects was selected and, following a successful listing, the Company immediately embarked on a major drilling initiative.

I am pleased to inform you that, at the time I write this letter, not only has the Company commenced delivering on its exploration objective, it has done so with a 75% success rate with the drill bit. On top of this exploration success, the Company has also made the transition from explorer to producer. An outstanding achievement in its first year of operations!

Reaching producer status, and achieving an early cash flow stream to fund ongoing activities, was an important objective for Target. In a highly competitive market the Company has demonstrated its ability to not only identify quality oil and gas targets, but to do so in areas where they can be quickly brought on stream and monetised.

In addition to the exploration portfolio presented upon listing, Target has managed to identify additional high quality projects which have been added to the drilling program. This ability to continue to identify, evaluate and capitalise on opportunities places the Company in a strong position to be able to continue to maintain a very active drilling program and deliver additional reserves and cash flow.

The Company's performance has been driven by a small, but very competent exploration and management team. I would like to thank all the Target team, particularly Managing Director Laurence Roe, for the way they have progressed the Company's growth over the past 12 months.

Target looks forward to the coming year as it continues to aggressively seek out quality prospective acreage and maintain high levels of drilling and field development. The very active drilling program, when combined with production continuing to come on stream, places the Company in a strong position to continue to deliver on its business objectives, increase reserves and cash flows, and create significant value for shareholders.

Didier Murcia
Chairman

- 3 DISCOVERIES FROM FIRST 4 WELLS
- 2 WELLS ALREADY ON PRODUCTION
- FIRST DISCOVERY 3 MONTHS AFTER LISTING
- FIRST PRODUCTION SIX MONTHS AFTER LISTING
- 6 MORE WELLS SCHEDULED IN 2007

HIGHLIGHTS

✓	**27 November 2006**	Target Energy Limited completes successful Initial Public Offering raising $10 million.
✓	**18 March 2007**	Gas discovery at Target's second well – Thoroughbred-1.
✓	**16 April 2007**	Oil and gas discovery at Target's third well – Snapper A-1. Wireline log analysis subsequently indicates that Snapper A-1 has intersected four separate zones of hydrocarbon pay.
✓	**19 April 2007**	Thoroughbred completed and flow-tested at rates up to 0.450 million cubic feet of gas per day (MMCFGD).
✓	**20 April 2007**	Non-renounceable entitlements issue of 1 option for every 2 shares at an issue price of 1 cent per option raises $340,000. Company dispatches 34,000,000 options exercisable at 25 cents each on or before 26 November 2009.
✓	**5 June 2007**	Gas production commences at Thoroughbred-1.
✓	**12 June 2007**	Gas discovery at Target Energy's fourth well, Garwood-1, gives Target a "3 out of 4" success rate to date. Four pay zones identified on wireline logs.
✓	**21 June 2007**	Oil and gas flowed during completion procedures at Snapper A-1. The lowermost of the four separate zones of potential hydrocarbon pay was perforated and flowed at rates up to 3.2 MMCFGD with 19.2 BOPD.
✓	**16 July 2007**	Target announces planned participation in two new wells in Jefferson Davis and Acadia counties, Louisiana. The wells will drill in the fourth quarter of 2007 and will test an aggregate potential of 64.8 BCFe. Target also announces planned participation in a third Snapper (A-3) well in St Martin Parish, Louisiana.
✓	**2 August 2007**	Production commences at Snapper A-1.

CORPORATE OVERVIEW

Target Energy Limited (Target) was listed on the Australian Securities Exchange (ASX) on 27 November 2006, with the stock code "TEX".

Target was formed to explore for and produce hydrocarbons principally in the United States of America, which remains one of the most attractive operating environments in the world for petroleum. Texas and Louisiana, the initial operating areas selected by Target, are well-established petroleum provinces that consistently yield new discoveries.

Specifically, operating in the United States offers a number of key advantages:

- exposure to a large flow of exploration opportunities
- high levels of drilling activity
- pervasive infrastructure allowing rapid access to market
- a strong gas market, with gas prices substantially higher than those seen in Australia.

Your Company's decision to focus on the US has already been validated as, in our first eight months, we have had three discoveries in our first four wells and already have two of those in production and generating cashflow. The first well in production, Thoroughbred-1, was discovered in March and came on-line on 5 June 2007, only six and a half months from the Company's listing.

In addition to the original drilling program, the Company has announced its intention to participate in a further three wells, giving the company a total of ten exploration wells in which it has participated or will participate in during 2007 (see Schedule below). All projects are located in Texas and Louisiana.

The remaining six wells scheduled for the balance of 2007 will address potential hydrocarbon volumes of up to 3.65 million barrels of oil and condensate and 97 BCFe (although additional drilling may be required to fully recover the reserves).

The Company continues to investigate opportunities in other regions in the US.

Laurence Roe

Laurence Roe
Managing Director

ESTIMATED TIMING	PROSPECT	LOCATION	TARGET WORKING INTEREST^	POTENTIAL RECOVERABLE VOLUMES*
December 2006	Kant	Colorado Co, Texas	25%	Sub-commercial gas shows
March 2007	Thoroughbred	Colorado Co, Texas	25%	Discovery – now on production
April 2007	Snapper A-1	St Martin Parish, La	25%	Discovery – now on production
June 2007	Garwood	Colorado Co, Texas	25%	Discovery
September 2007	Snapper A-2	St Martin Parish, La	25%	1.0 MMBO; 1.46 BCF
October 2007	Bayou Berard	St Martin Parish, La	15%	1.8 MMBO; 0.72 BCF
October 2007	Teche	Jefferson Davis Parish, La	10%	22.4 BCFe
November 2007	Bandito	Acadia Parish, La	15%	42.4 BCFe
Q4 2007	Parks North	St Martin Parish, La	10%	0.15 MMBC; 25.7 BCF
December 2007	Snapper A-3	St Martin Parish, La	25%	0.7 MMBO; 4.0 BCF
TBA	Berwyn	Assumption Parish, La	10%	305 BCFe

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

PROJECT REVIEW

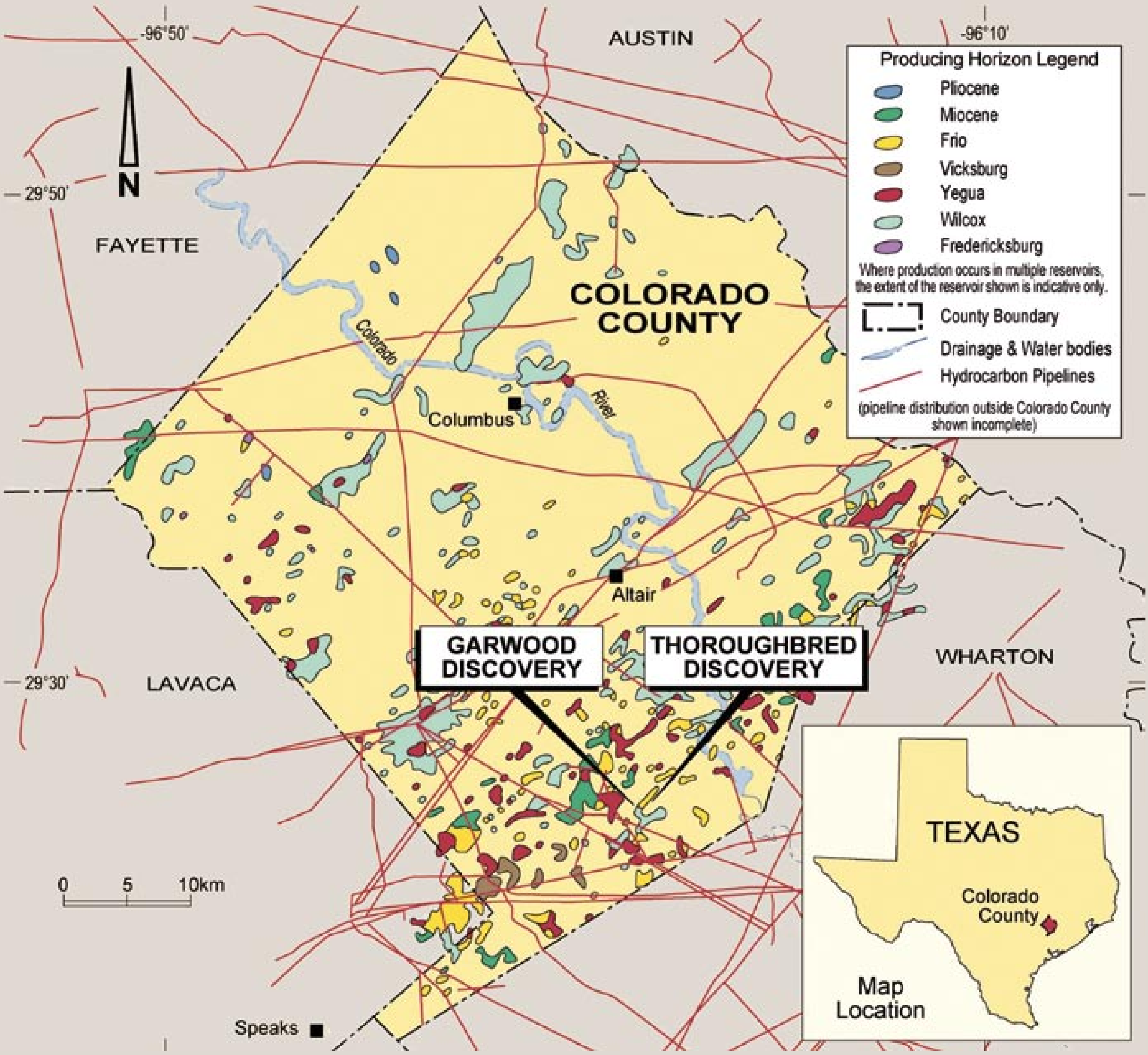


FIGURE 1

COLORADO COUNTY, TEXAS SHOWING PRODUCING HORIZONS, LARGE DIAMETER PIPELINE NETWORK AND THE LOCATION OF THE GARWOOD FRIO, THROUGHBRED AND KANT PROSPECT AREA.

TEXAS COLORADO COUNTY

Target Energy has participated in three exploration wells with Everest Resource Company ("Everest") of Corpus Christi. Located in southern Colorado County, Texas (Fig 1), approximately 110 kilometres west-south-west of Houston, the wells were designed to test a number of prospects delineated by anomalous seismic amplitudes on 3D seismic data. Everest has been successfully exploring in the region using the 3D seismic data.

KANT NO. 1
(TARGET ENERGY 25% WORKING INTEREST)

The Kant No. 1 well was programmed to test an Oligocene-age seismic amplitude anomaly at a depth of approximately 988 metres (3,240 feet) with additional Miocene and Frio potential.

The well commenced drilling on 29 December 2006 and reached its programmed Total Depth of 1,448 metres (4,750 feet) on 6 January 2007. Wireline logs were then run in the well and while preliminary evaluation of the logs suggested the presence of hydrocarbon-bearing reservoir sands in the well, the relevant sands were thin and were judged by the partners to not be capable of yielding economic reserves. Accordingly the decision was taken to plug and abandon the well.

THOROUGHBRED NO. 1 GAS DISCOVERY
(TARGET ENERGY 25% WORKING INTEREST)

The Thoroughbred No. 1 well tested an Oligocene Frio sandstone target which had been identified on 3D seismic, with the primary target at a depth of 1,250 metres (4,100 feet). The objective sandstone reservoir was represented by a "bright" seismic amplitude anomaly, which was mapped with an areal closure of 56 acres and the upside gas potential is considered to be 1.34 billion cubic feet (BCF). The Thoroughbred prospect was also considered to possess additional Frio and Miocene sandstone gas potential.

Drilling at Thoroughbred No. 1 commenced on 10 March 2007 and reached Total Depth of 1,450.8 metres (4,760 feet) on 16 March 2007.

Wireline logs run in the well indicated the presence of gas-bearing Frio sandstones and consequently fluid samples were taken from two zones. The shallower of the two zones, between 1,288.6 – 1,289.5 metres (4,228 – 4,231 feet), produced 20 cubic feet of gas into a sample chamber on wireline testing from a test depth of 1,288.9 metres. The deeper zone between 1,298 – 1,304.4 metres (4,258 – 4,279 feet) produced 30 cubic feet of gas into a sample chamber from a test depth of 1,300.5 metres in a six-minute period.

Results of the logs and the formation samples confirmed the discovery of gas and the partners in the well agreed to complete the well as a gas producer.

Thoroughbred No. 1 was completed in the lower zone on 10 April 2007, with the Frio sandstone perforated between 1,298.4 metres and 1,300.9 metres depth (4,260 feet – 4,268 feet). The well was successfully flow tested at rates up to 450 thousand cubic feet of gas per day (MCFGD). Completion operations were finalised on 13 April 2007. The well was tied into the local gathering system and production commenced on 5 June 2007 at a rate of approximately 335 MCFGD.

GARWOOD NO. 1 GAS DISCOVERY
(TARGET ENERGY 25% WORKING INTEREST)

Located approximately 1.5 kilometres west of the Thoroughbred No. 1 discovery, Garwood No. 1 was programmed to test an Oligocene-age seismic amplitude anomaly at a depth of approximately 1,250 metres (4,100 feet). Potential recoverable volumes (as defined by the seismic anomaly) ranged up to 3 BCF of gas. The well also tested additional Miocene and Frio potential.

Drilling at Garwood No. 1 commenced on 3 June 2007 and reached Total Depth of 1,470.7 metres (4,825 feet) on 8 June 2007. Wireline logs subsequently identified four potential gas-bearing zones. Three of these flowed dry gas during formation testing:

Zone 1 (1125.0 – 1127.2 metres)
flowed dry gas from a test at 1126.6 metres.

Zone 2 (1137.5 – 1140.6 metres)
flowed dry gas from a test at 1138.7 metres.

Zone 3 (1293.6 – 1296.6 metres)
flowed dry gas from a test at 1294.2 metres.

Zone 4 (1078.4 – 1079.0 metres)
recovered gas and water from a test at 1078.7 metres.

Additional potential pay has also been identified elsewhere in the well.

Garwood No. 1 is presently awaiting flow testing and completion for production.


CYPRESS
PRODUCTION, INC.
ST. MARTIN LAND A No.1
SECTION 28 FIELD
Sec. 28-T.09S.-R.07E.
ST. MARTIN PARISH, LA
Ser. No. 235157

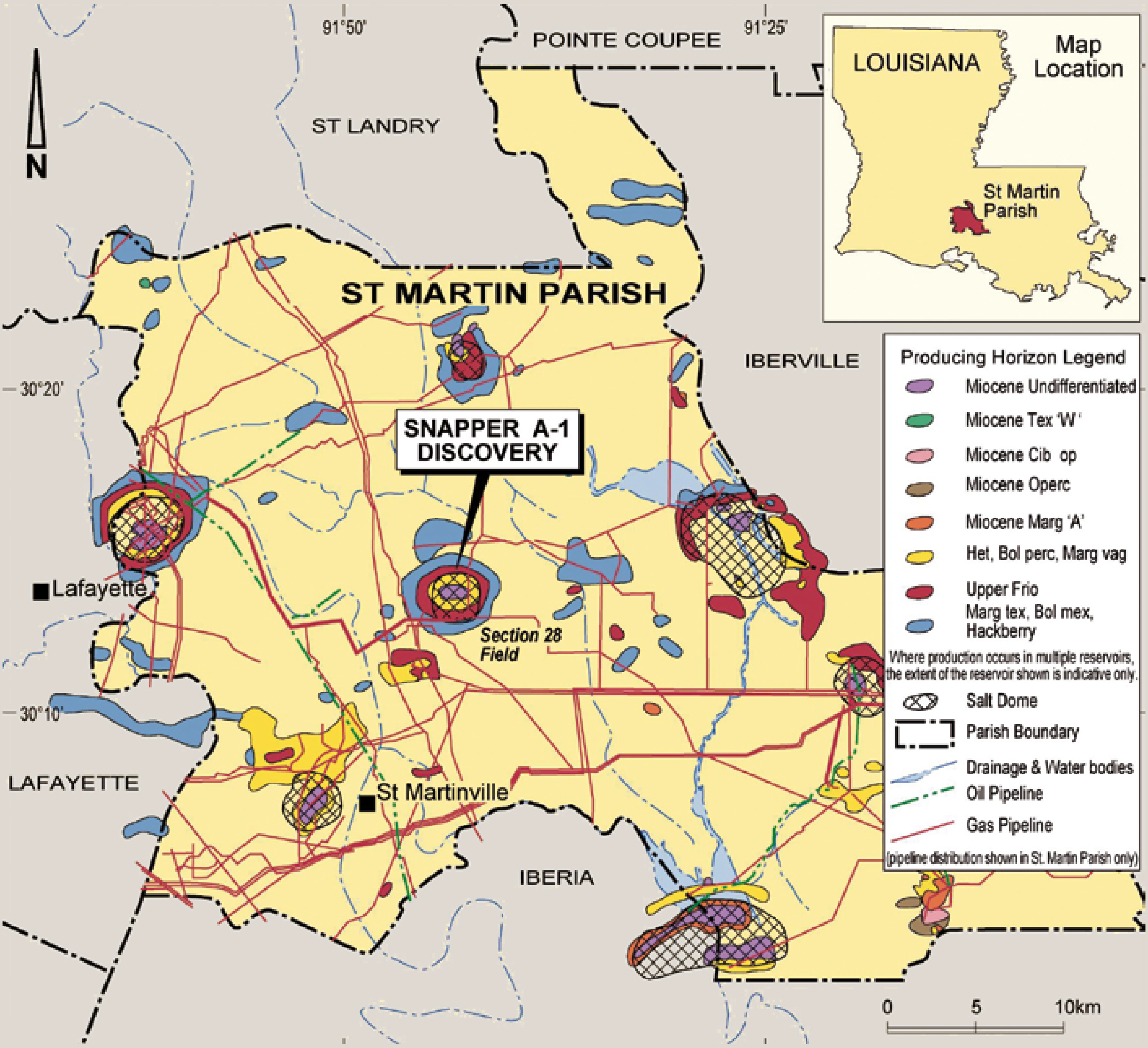


FIGURE 2

ST MARTIN PARISH, LOUISIANA SHOWING PRODUCING HORIZONS, LARGE DIAMETER OIL AND GAS PIPELINE NETWORK AND THE SECTION 28 FIELD PROSPECT AREA.

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 (Fig 2).

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.

SNAPPER A-1 OIL AND GAS DISCOVERY (TARGET ENERGY 25% WORKING INTEREST)

Officially titled the St. Martin Land A No. 1 well, the Snapper A-1 well was designed to test three sandstones which contain potential hydrocarbon volumes designated by the operator as proved but undeveloped (PUD) hydrocarbons in a faulted segment adjacent to the north flank of the Section 28 salt dome. The high quality sands that contain these PUD hydrocarbons consist of the "3rd Marg Tex" and the Hackberry A-1 and Hackberry A-4 sandstones. Programmed Total Depth for the well was approximately 3,050 metres (10,000 ft).

Drilling at Snapper A-1 commenced on 14 March 2007. By 27 April, the well had been drilled to a measured depth of 2,891.1 m (9,485 feet) where, in response to deteriorating hole conditions, it was decided to protect the hole by running casing. After running wireline logs and setting casing, the well drilled ahead to a measured depth of 3,002.9 metres (9,852 feet) on 23 April 2007, at which time it intersected the adjacent salt dome. The well encountered the salt before it could penetrate the targeted Hackberry sands.

Wireline logs indicated the presence of potential recoverable hydrocarbons in four separate zones in the Snapper A-1 well:

Measured Depth (m)	Zone	Net Pay
2,754.0	Marg Howie	4.3 metres
2,773.7	1st Camerina	0.6 metres
2,860.6	3rd Marg Tex	5.2 metres
2,879.8	4th Marg Tex	1.8 metres
Total		**11.9 metres**

Based on the log analysis, the operator's preliminary estimate of potential recoverable hydrocarbons for the well totals 2.25 BCF of gas and 600,000 barrels of oil (BO).

Based on these results, the decision was made to complete Snapper A-1 as a producing well. The drilling rig was released on 29 April 2007 and a completion rig was mobilised to the well site on 21 June 2007. The "4th Marg Tex" sand was subsequently perforated from 2,879.8 metres to 2882.2 metres (9,448 – 9456 feet) and flowed gas and oil at rates up to 3.2 million cubic feet of gas per day (MMCFGD) and 19.2 barrels of oil per day (BOPD).

The 4th Marg Tex is the deepest of the four zones previously identified on wireline logs in the well as potentially hydrocarbon bearing. In accordance with the operator's program, only the 4th Marg Tex was completed with the shallower zones to be completed at a future date.

The well was brought online on 2 August 2007 and commenced production at a rate of 1.04 MMCFGD with 3 – 5 BOPD.

SNAPPER A-2 (TARGET ENERGY UP TO 25% WORKING INTEREST)

Snapper A-2 is an oil and gas prospect on the north-eastern flank of the Section 28 salt-dome, approximately 25 km east of Lafayette. Following the results at Snapper A-1, the proposed bottom-hole location of the A-2 well was adjusted to target additional sands. The bottom-hole location of the well is currently programmed to be approximately 450 metres east-north-east of the Snapper A-1 well. Snapper A-2 will test six potential pay zones, including updip attic oil from the 3rd Marg Tex and Hackberry A-1 sands as well as possible gas and oil in the Marg Howie, 1st Camerina, 1st Marg Tex and Hackberry A-4 sands. Prognosed total depth is 3,048 metres (10,000 ft).

The well will test a potential of up to 1 MMBO and 1.46 BCF of gas (unrisked, recoverable). It is expected that the well can be brought on-stream approximately two months after completion.

A rig was contracted in June 2007 for the Snapper A-2 and Bayou Berard wells, with drilling expected to be underway at Snapper A-2 in September 2007. The wells will be drilled back to back.

SNAPPER A-3 (TARGET ENERGY 25% WORKING INTEREST)

Snapper A-3 well is to be located approximately 122 metres north of Target's Snapper A-1 discovery in St Martin Parish, Louisiana. The well is designed to test Hackberry A-3 and A-4 sands that were not intersected by the Snapper A-1 well. Target will have a 25% working interest in the well, which will be drilled to a depth of approximately 3,048 metres.

Snapper A-3 will test a potential of up to 0.7 MMBO and 4 BCF of gas (unrisked, recoverable). It is scheduled to be drilled late in the fourth quarter of 2007.

BAYOU BERARD (TARGET ENERGY 15% WORKING INTEREST)

The Bayou Berard prospect is situated on the south-eastern flank of the Section 28 oil field. The prospect is mapped as an untested fault segment (at the Marg Tex and Hackberry levels) on the Catahoula 3D seismic data, supported by subsurface well control. Target will earn up to a 15% working interest. The prospect lies approximately 29 kilometres from the city of Lafayette.

The primary target is the Marg Tex section, which contains five individual sandstones which have proven to be hydrocarbon bearing within the greater area of the Section 28 field. The most significant sandstones are the 1st Marg Tex and 3rd Marg Tex and to a lesser extent the 2nd Marg Tex horizons. Exploration drilling to date in the 1st Marg Tex sandstone in the Section 28 field has found oil and/or gas in commercial quantities from every fault segment around the salt dome. Where the reservoir quality is adequate, the 2nd and 3rd Marg Tex have also produced in every fault segment.

In addition to the Marg Tex sandstones, down dip extensions of the Bayou Berard fault segment have encountered minor production from the Marg Vag and in the Bol Perca sandstones. The Bayou Berard well has an intended depth of 11,300 ft (3,444 metres) and has been designed to employ a simple vertical borehole trajectory.

The Bayou Berard well will potentially prove up 1.8 MMBO and 0.72 BCF of gas (recoverable). The well will be drilled to 3,444 metres (11,300 ft). A second well will be required to fully drain these volumes.

A rig has been contracted for the Snapper A-2 and Bayou Berard wells, with drilling at Bayou Berard expected to be underway in October 2007.

PARKS NORTH
(TARGET ENERGY UP TO 10% WORKING INTEREST)

The fourth well in which Target will participate with Cypress will be Parks North. Target will earn up to a 10% working interest in this prospect. The actual working interest will be subject to a proposed unitisation agreement and the exercise of a maximum 6.25% after payout back-in option by a third-party. Parks North is located on the southwest flank of the Section 28 field, approximately 14 miles (22.5 kilometres) east of Lafayette. The primary target is the Hackberry A-5 sandstone, a channel-like amplitude anomaly updip of shows. A secondary objective is a Hackberry A-4 sandstone amplitude anomaly with associated underlying velocity sag. The Hackberry A-4 interval is proven productive at the nearby Alcoa-3 Melancon location, which has produced 13.2 billion cubic feet of gas and also at the 1976 Hawthorne-1 Langlinais well, which has produced 10.1 billion cubic feet of gas. A shallower, third objective is the Hackberry A-3 sandstone, which has excellent reservoir potential. At Parks North, it has high amplitudes and a Class 3 AVO (amplitude versus offset) anomaly – indicative of the presence of gas. All these objectives are trapped against the up-thrown side of a contemporary fault mapped on the 3D seismic.

Total unrisked potential hydrocarbon volumes are 25.7 BCF and 150,000 BO. Parks North could be brought on-stream within four months after completion. Programmed total depth is 4,236 metres (13,900 ft).

Drilling is expected to commence at Parks North in the fourth quarter of 2007.

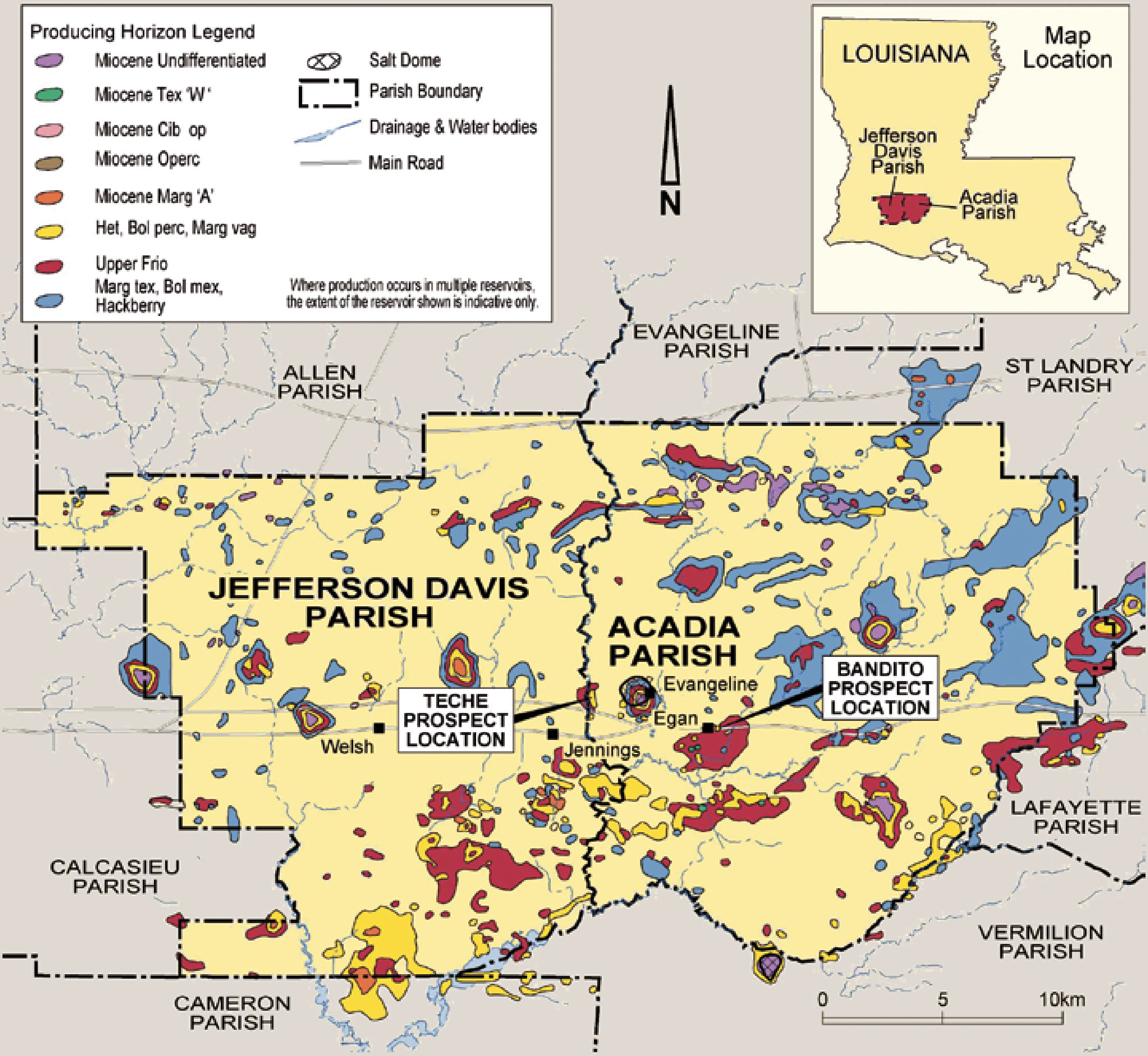


FIGURE 3

JEFFERSON DAVIS/ACADIA PARISHES SHOWING PRODUCING HORIZONS AND THE TECHE AND BANDITO PROSPECT LOCATIONS.

LOUISIANA JEFFERSON DAVIS/ACADIA PARISHES

Target has entered into an agreement with Aspect Energy, LLC (Aspect) of Denver, Colorado to participate in the drilling of two prospects in the Jefferson Davis and Acadia parishes in Louisiana (Fig 3). The prospects were developed by Aspect on a 1,424 square kilometre (550 square mile) recently reprocessed and merged 3D seismic data set consisting of ten separate proprietary and speculative surveys.

TECHE
(TARGET ENERGY 10% WORKING INTEREST)

Located approximately 57 kilometres west of Lafayette in Jefferson Davis Parish, Louisiana, the Teche prospect is scheduled to be drilled in October 2007. Target will earn a 10% working interest in the well, which will be operated by Aspect. The well will be directionally drilled to a measured depth of 3,810 metres (12,500 feet) and will target up to 22.4 BCFe of potential recoverable gas and condensate in Oligocene age "Bol mex 2" sands. Additional potential is recognised in a number of other sands which will also be tested in an optimal position. Drilling is expected to take approximately four weeks.

BANDITO
(TARGET ENERGY 15% WORKING INTEREST)

Located approximately 44 kilometres west of Lafayette in Acadia Parish, Louisiana, the Bandito prospect is scheduled to be drilled in November 2007. Target will earn a 15% working interest in the well, which will also be operated by Aspect. The well is planned to be drilled to a depth of 3,932 metres (12,900 feet) and will target up to 42.4 BCFe of potential recoverable gas and condensate in Oligocene age "Bol mex" sands. Drilling is expected to take approximately four weeks.

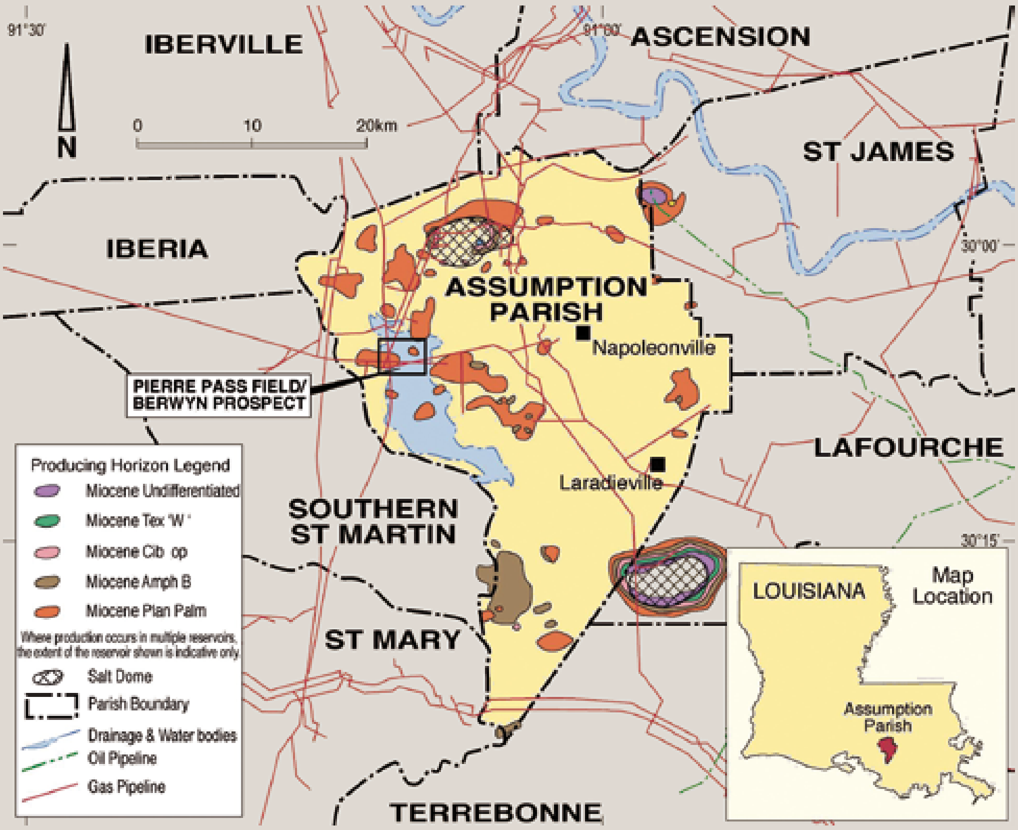


FIGURE 4

ASSUMPTION PARISH, LOUISIANA SHOWING PRODUCING HORIZONS, LARGE DIAMETER OIL AND GAS PIPELINE NETWORK.

LOUISIANA ASSUMPTION PARISH

BERWYN (TARGET ENERGY 10% WORKING INTEREST)

Located in Assumption Parish, Louisiana – approximately 80 kilometres south of the city of Baton Rouge (Fig 4.) – the Pierre Pass field was discovered in 1960. It has produced 65 billion cubic feet of gas equivalent from Lower Miocene "Planulina" – (Planulina palmerae) sandstones at depths of 3,810 metres to 4,115 metres.

The "Planulina" sandstones produce from a number of horizons within the field area, including the Lentic 3, a surface on which the Pierre Pass field structure has been mapped. Pogo Producing Company has proposed to drill a deeper sandstone objective which lies within the faulted structure of the shallower Pierre Pass field. This feature – the Berwyn Prospect – has an objective sandstone horizon (PP-13), observed and represented by a thick sandstone sequence in the nearby Union Texas S/L 3426 #7 well bore. The PP-13 sand is quite prolific elsewhere in the area; for example, in the Bayou St Vincent field, which lies less than 1.7 miles (2.7 kilometres) to the north-north-east of Pierre Pass, the PP-13 reservoir alone has produced 55 billion cubic feet of gas equivalent and the full section of "Planulina" sandstones (PP-13 through PP-20) has produced an aggregate 114 billion cubic feet of gas equivalent.

The Berwyn prospect is mapped on 3D seismic as an upthrown three-way fault trap with dip closure to the west and northwest, enclosing an area of 600 acres. The target sandstones are deltaic in character and may be up to 76 metres thick as measured in the Union Texas S/L 3426 #7 well, 1.27 miles (2.05 kilometres) to the west of the proposed Berwyn well location. The proposed well has a designed total depth of 4,816 metres (15,800 ft) and will be drilled from a barge-mounted rig in Lake Verret, which overlies the Pierre Pass field. Water depth is approximately 1.8 metres (six feet).

Target intends to earn a 10% working interest in the well with the option to access further opportunities that may be matured within the area of the agreement.

Potential reserves for the Berwyn prospect in the PP-13 reservoir only, given a 61 metres (200 ft) sandstone reservoir within a closure of 400 acres, are up to 160 billion cubic feet of gas with 3.2 million barrels of condensate. Total reserve potential, including the PP-13, PP-15 and PP-20 sands, is 272 BCF of gas plus 5.44 MMBC (together referred to as 305 BCFe).

During the year, Target was informed by the Operator of the Berwyn prospect that the drilling contractor has undertaken a review of costs for the proposed well and has advised of substantial increases to the anticipated cost of drilling the prospect. The Operator has further advised that additional cost increases are expected.

As a consequence of the cost escalation, the Operator has recommended that further work on Berwyn, including the contracting of a drilling rig, be postponed until drilling costs can be suitably reduced. Target shares the concern about the cost rises and has agreed to such a deferral. Target will maintain its option to participate in the prospect while it awaits confirmation that the Operator has been able to reduce the drilling costs and has recommenced work towards drilling at Berwyn.

GLOSSARY

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 increases. 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.

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 1 degree F. A measure of the richness of natural gas.

Casing Large-diameter steel pipe lowered into an open borehole and cemented in place.

Company or Target Target Energy Limited (ABN 73 119 160 360).

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, ie, where no additional investment in casing, testing or well completion is incurred.

Directors Directors of the Company.

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 **GOR** Gas oil ratio, the ratio of produced gas to produced oil.

GST Goods and services tax.

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. 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.

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 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.

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.

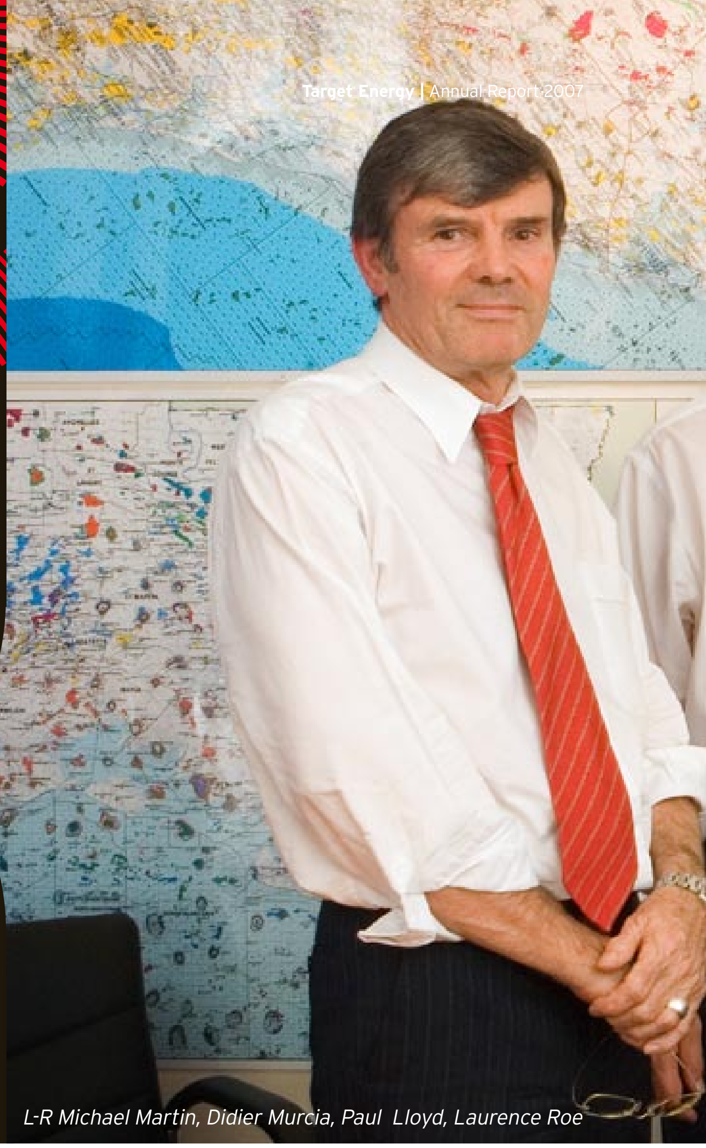
USA The United States of America.

DIRECTORS' REPORT

Your directors submit the annual financial report of the consolidated entity for the financial period ended 30 June 2007. 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 period unless otherwise stated.



L-R Michael Martin, Didier Murcia, Paul Lloyd, Laurence Roe

NAMES, QUALIFICATIONS AND EXPERIENCE

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.

Mr Murcia was appointed to the Board 1 September 2006.

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.

** 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 was appointed to the Board 6 April 2006.

During the last three years, Mr Roe has also served as a director of the following listed company:
- Bounty Oil & Gas NL.

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

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 was appointed to the Board 6 April 2006.

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

DIRECTOR AND COMPANY SECRETARY

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 is Executive Chairman of ASX-listed Beacon Minerals Limited and is currently a company secretary of a number of public companies in the resource industry.

Mr Lloyd was appointed to the Board 6 April 2006.

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

- Beacon Minerals Limited*

** denotes current directorships*

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	-	500,000	1,000,000
Laurence Roe	2,000,000	2,500,000	5,000,000
Michael Martin	2,000,000	2,000,000	4,000,000
Paul Lloyd	2,000,000	1,125,000	2,250,000

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

(ii) 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. These options are exercisable at 25 cents on or before 26 November 2009.

SHARE OPTIONS

Details of unissued ordinary shares under options are as follows:

	Number of options	Exercise price	Expiry date
Target Energy Limited	6,000,000	20 cents	30 June 2011
Target Energy Limited	34,000,000	25 cents	26 Nov 2009

No ordinary shares were issued during the financial period as a result of the exercise of any options.

DIVIDENDS

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

PRINCIPAL ACTIVITIES

The principal activities of the entities within the consolidated entity during the period were the 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 period.

REVIEW OF OPERATIONS

During the reporting period, Target Energy participated in the drilling of four exploration wells.

Three wells were in southern Colorado County, Texas approximately 110 kilometres west-south-west of Houston.

- **KANT NO. 1 (TARGET ENERGY 25% WORKING INTEREST)**

  The Kant No. 1 well commenced drilling on 29 December 2006 and reached its programmed Total Depth of 1,448 metres (4,750 feet) on 6 January 2007. Wireline logs were then run in the well and while preliminary evaluation of the logs suggested the presence of hydrocarbon-bearing reservoir sands in the well, the relevant sands were thin and were judged by the partners to not be capable of yielding economic reserves. Accordingly the decision was taken to plug and abandon the well.

- **THOROUGHBRED NO. 1 (TARGET ENERGY 25% WORKING INTEREST)**

  Drilling at the Thoroughbred No. 1 well commenced on 10 March 2007 and reached Total Depth of 1,450.8 metres (4,760 feet) on 16 March 2007. Wireline logs run in the well indicated the presence of gas-bearing Frio sandstones and consequently fluid samples were taken from two zones. The shallower of the two zones, between 1,288.6 – 1,289.5 metres (4,228 – 4,231 feet), produced 20 cubic feet of gas into a sample chamber on wireline testing from a test depth of 1,288.9 metres. The deeper zone between 1,298 – 1,304.4 metres (4,258 – 4,279.5 feet) produced 30 cubic feet of gas into a sample chamber from a test depth of 1,300.5 metres in a six-minute period.

Results of the logs and the formation samples confirmed the discovery of gas and the partners in the well agreed to complete the well as a gas producer.

Thoroughbred No. 1 was completed in the lower zone on 10 April 2007, with the Frio sandstone perforated between 1,298.4 metres and 1,300.9 metres depth (4,260 feet – 4,268 feet). The well was successfully flow tested at rates up to 450 thousand cubic feet of gas per day (mcfgd). Completion operations were finalised on 13 April 2007. The well was tied into the local gathering system and production commenced on 5 June 2007 at a rate of approximately 335 mcfgd.

- **GARWOOD NO. 1 (TARGET ENERGY 25% WORKING INTEREST)**

  Drilling at Garwood No. 1 commenced on 3 June 2007 and reached Total Depth of 1,470.7 metres (4,825 feet) on 8 June 2007. Wireline logs subsequently identified four potential gas-bearing zones. Three of these flowed dry gas during formation testing:

  Zone 1 (1125.0 – 1127.2 metres) flowed dry gas from a test at 1126.6 metres.
  Zone 2 (1137.5 – 1140.6 metres) flowed dry gas from a test at 1138.7 metres.
  Zone 3 (1293.6 – 1296.6 metres) flowed dry gas from a test at 1294.2 metres.
  Zone 4 (1078.4 – 1079.0 metres) recovered gas and water from a test at 1078.7 metres.

  Garwood No. 1 is presently awaiting flow testing and completion for production.

Target also participated in one well with in Section 28 oil and gas field area, located approximately 25 kilometres east of the city of Lafayette in Louisiana.

- **SNAPPER A-1 (TARGET ENERGY 25% WORKING INTEREST)**

  Drilling at Snapper A-1 commenced on 14 March 2007. By 27 April, the well had been drilled to a measured depth of 2,891.1m (9,485 feet) where, in response to deteriorating hole conditions, it was decided to protect the hole by running casing. After running wireline logs and setting casing, the well drilled ahead to a measured depth of 3,002.9 metres (9,852 feet) on 23 April 2007, at which time it intersected the adjacent salt dome. The well encountered the salt before it could penetrate the targeted Hackberry sands.

  Wireline logs indicated the presence of potential recoverable hydrocarbons in four separate zones in the Snapper A-1 well:

Measured Depth (m)	Zone	Net Pay
2,754.0	Marg Howie	4.3 metres
2,773.7	1st Camerina	0.6 metres
2,860.6	3rd Marg Tex	5.2 metres
2,879.8	4th Marg Tex	1.8 metres
Total		11.9 metres

Based on these results, the decision was made to complete Snapper A-1 as a producing well. The drilling rig was released on 29 April 2007 and a completion rig was mobilised to the well site on 21 June 2007. The "4th Marg Tex" sand was subsequently perforated from 2,879.8 metres to 2882.2 metres (9,448 – 9456 feet) and flowed gas and oil at rates up to 3.2 million cubic feet of gas per day (MMCFGD) and 19.2 barrels of oil per day (BOPD).

The 4th Marg Tex is the deepest of the four zones previously identified on wireline logs in the well as potentially hydrocarbon bearing. In accordance with the operator's program, only the 4th Marg Tex was completed with the shallower zones to be completed at a future date.

The well was brought online on 2 August 2007 and commenced production at a rate of 1.04 MMCFGD with 3 – 5 BOPD.

OPERATING RESULTS FOR THE YEAR

Net loss attributable to equity holders of the parent for the period ended 30 June 2007	$1,238,886
Basic loss per share (cents)	3.2

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 periods.

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 is not subject to any significant environmental legislation.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify the following current directors of the Company, Mr D Murcia, Mr L Roe, Mr M Martin and Mr P Lloyd, against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors 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 premiums paid was $36,748.

REMUNERATION REPORT

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

REMUNERATION PHILOSOPHY

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

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 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 remuneration of non executive directors for the period ended 30 June 2007 is detailed in note 21 of this report.

SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

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

All the current directors 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.

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 $240,000 pa inclusive of superannuation
- 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.

REMUNERATION OF DIRECTORS

TABLE 1: DIRECTORS' REMUNERATION FOR THE PERIOD ENDED 30 JUNE 2007

	Primary benefits		Post employment		Equity	Total	%
	Salary & Fees	Non Monetary Benefits	Superannuation	Prescribed benefits	Options		Performance related
D Murcia	21,300	4,214	-	-	-	25,514	0
L Roe	186,792	4,214	13,211	-	4,230	208,447	2
M Martin	170,616	4,214	12,610	-	4,230	191,670	2
P Lloyd	62,000	4,214	1,800	-	4,230	72,244	6
Total	440,708	16,856	27,621	-	12,690	497,875	3

TABLE 2: OPTIONS GRANTED AS PART OF REMUNERATION

	Value of options granted at grant date	Value of options exercised at exercise date	Value of options lapsed at time of lapse	Total value of options granted, exercised and lapsed	Value of options lapsed during period	Value of options included in remuneration for the period	% remuneration consisting of options for the period
D Murcia	-	-	-	-	-	-	-
L Roe	4,230	-	-	4,230	-	4,230	2
M Martin	4,230	-	-	4,230	-	4,230	2
P Lloyd	4,230	-	-	4,230	-	4,230	6

For details on the valuation of the options, including models and assumptions used, please refer to Note 12. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

DIRECTORS' MEETINGS

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

	Directors' Meetings
Number of meetings held:	6
Number of meetings attended:	
D Murcia	6
L Roe	6
M Martin	6
P Lloyd	6

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 is set out on page 16 and forms part of this directors' report for the period ended 30 June 2007.

NON-AUDIT SERVICES

The following non-audit services were provided by our auditors, HLB Mann Judd. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

HLB Mann Judd received or are due to receive the following amounts for the provision of non-audit services:

Preparation of Independent Accountant's report in IPO prospectus	$ 7,500

Signed in accordance with a resolution of the directors.

Didier Murcia
Chairman
Perth, 29 August 2007

CORPORATE GOVERNANCE STATEMENT

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

BOARD OF DIRECTORS

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.

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.

The consolidated entity is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of separate board committees, including a Nomination Committee, Remuneration Committee or an Audit Committee. Accordingly, all matters that may be considered by such committees are dealt with by the full board. Details of the board's procedures in respect to each of these areas are further outlined within the Corporate Governance Statement below – see Nomination Committee, Remuneration Committee and Audit committee respectively.

DIRECTOR EDUCATION

The consolidated entity has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

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 names of the Directors of the Company in office at the date of this report are set out in the Directors' Report on pages 22 and 23.

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 service, subject to re-election every two years (except for the Managing Director).

Board members have experience in the management of public companies. 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.

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.

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, performance-based 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.

AUDIT COMMITTEE

The consolidated entity is not currently considered to be of a size, nor is 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, prior to announcement of results.

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

RISK MANAGEMENT

OVERVIEW OF THE RISK MANAGEMENT SYSTEM

The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Company's risk profile. This includes assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The consolidated entity is not of a size nor is its affairs of such complexity to justify the establishment of a formal system for reporting risk management and associated compliance and controls. Instead, a director, in accordance with company policy, approves all expenditure, is intimately acquainted with all operations and reports all relevant issues to the other directors at the directors' meetings. The company secretary has declared to the board, that the aforementioned system is working efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the entire part of the financial year that the Company operated and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

RISK PROFILE

The consolidated entity is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the board, as part of its usual role and through direct involvement in the management of the Company's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

Major risks arise from such matters as actions by competitors, government policy changes, difficulties in sourcing raw materials, the robustness of the technologies being used or proposed to be used, environment, occupational health and safety, financial reporting and the purchase, development and use of information systems.

RISK MANAGEMENT, COMPLIANCE AND CONTROL

The board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities.

Practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior board approval;
- Financial exposures are controlled, including the potential use of derivatives;
- Occupational health & safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- Business transactions are properly authorised and executed;
- The quality and integrity of personnel (see below);
- Financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- Environmental regulation compliance (see below).

QUALITY AND INTEGRITY OF PERSONNEL

The Company conducts a comprehensive review of the ability and experience of potential employees prior to appointment. Informal appraisals will be conducted regularly with continuous feedback and on the job monitoring and training for all employees. Formal appraisals will be conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews will create an environment of co-operation and constructive dialogue with employees and senior management.

FINANCIAL REPORTING

The company secretary has declared, to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Following the reporting period, monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

ENVIRONMENTAL REGULATION

The consolidated entity's operations are subject to significant environmental regulation in relation to its operational activities. The consolidated entity is committed to achieving a high standard of environmental performance. The board is responsible for the regular monitoring of environmental exposures and compliance with environmental regulations.

The board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

INTERNAL AUDIT

The consolidated entity does not have a formally established internal audit function. The board ensures compliance with the internal controls and risk management procedures previously mentioned.

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 21.

CODE OF CONDUCT

The Company has established a Code of Conduct (Code) 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.

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.

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 Compliance policy. 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.

In summary, the continuous disclosure processes operate as follows:

- The chairman and the company secretary are responsible for all communications with the ASX. Matters that may have an effect on the price of the Company's securities are advised to the ASX on the day they are discovered. Senior executives monitor all areas of the group's internal and external environment;
- The full annual financial report is made available to all shareholders, and includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments;
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it;
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders;
- All announcements made to the market, and related information (including information provided to analysts and the media), are released to the ASX; and
- The external auditor attends the Annual General Meeting to answer any questions concerning the audit and the content of the Auditor's Report.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the constitution. Copies of the constitution are available to any shareholder on request.

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Target Energy Limited for the period ended 30 June 2007, 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
29 August 2007

L Di Giallonardo
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership)

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HLB Mann Judd (WA Partnership) is a member of HLB International and the HLB Mann Judd National Association of independent accounting firms

INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2007

	Notes	Consolidated 2007 $	Parent 2007 $
Revenue	2	203,400	221,277
Other income	2	51	51
Accounting expense		(62,708)	(55,156)
Audit fees		(13,700)	(13,700)
Consultants		(146,213)	(146,213)
Depreciation expense		(12,774)	(12,774)
Directors' fees		(43,800)	(43,800)
Employee benefits expense		(335,778)	(335,778)
Exploration costs		(169,454)	-
Foreign exchange loss		(325,146)	(481,525)
Insurance		(17,669)	(17,669)
Legal expenses		(82,717)	(82,717)
Listing fees		(4,737)	(4,737)
Office expense		(74,195)	(74,195)
Option issue expense		(12,690)	(12,690)
Other expenses		(27,046)	(25,231)
Promotions and advertising		(15,480)	(15,480)
Share registry expense		(18,551)	(18,551)
Travel and accommodation		(79,679)	(79,679)
Impairment of loan to controlled entity		-	(184,866)
Loss before income tax expense	**2**	**(1,238,886)**	**(1,383,433)**
Income tax expense	3	-	-
Loss after tax		**(1,238,886)**	**(1,383,433)**
Basic loss per share (cents per share)	5	**3.2 cents**	

The accompanying notes form part of these financial statements

BALANCE SHEET
AS AT 30 JUNE 2007

	Notes	Consolidated 2007 $	Parent 2007 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	5,854,143	5,830,742
Trade and other receivables	7	36,039	36,039
Other financial assets	8	50,000	50,000
Total Current Assets		**5,940,182**	**5,916,781**
Non-Current Assets			
Other financial assets	9	-	2,553,659
Property, plant and equipment	10	70,570	70,570
Deferred exploration expenditure	11	2,521,438	-
Total Non-Current Assets		**2,592,008**	**2,624,229**
Total Assets		**8,532,190**	**8,541,010**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	89,519	86,507
Total Current Liabilities		**89,519**	**86,507**
Total Liabilities		**89,519**	**86,507**
Net Assets		**8,442,671**	**8,454,503**
EQUITY			
Issued capital	14	9,485,246	9,485,246
Reserves	14	196,311	352,690
Retained earnings/(Accumulated losses)	14	(1,238,886)	(1,383,433)
Total Equity		**8,442,671**	**8,454,503**

The accompanying notes form part of these financial statements

CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2007

	Note	Consolidated 2007 $	Parent 2007 $
		Inflows/ (Outflows)	Inflows/ (Outflows)
Cash flows from operating activities			
Payments to suppliers and employees		(1,193,888)	(1,343,912)
Interest received		203,400	221,277
Net cash provided by/(used in) operating activities	6	(990,488)	(1,122,635)
Cash flows from investing activities			
Purchase of property, plant and equipment		(83,344)	(83,344)
Purchase of petroleum interests		(2,690,892)	-
Investment in term deposit		(50,000)	(50,000)
Loans to controlled entities		-	(2,738,525)
Net cash provided by/(used in) investing activities		(2,824,236)	(2,871,869)
Cash flows from financing activities			
Proceeds from issue of shares		10,784,000	10,784,000
Share issue expenses		(958,754)	(958,754)
Net cash provided by/(used in) financing activities		**9,825,246**	**9,825,246**
Net increase/(decrease) in cash and cash equivalents		6,010,522	5,830,742
Cash and cash equivalents at beginning of period		-	-
Effect of exchange rate changes on the balance of cash held in foreign currencies		(156,379)	-
Cash and cash equivalents at 30 June 2007	**6**	**5,854,143**	**5,830,742**

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2007

Consolidated	Ordinary Shares $	Retained Earnings/ (Accumulated Losses) $	Option Premium Reserve $	Employee Equity Benefits Reserve $	Foreign Currency Translation Reserve $	Total $
Shares issued during the year	10,444,000	-	-	-	-	10,444,000
Transaction costs	(958,754)	-	-	-	-	(958,754)
Loss attributable to members of the parent entity	-	(1,238,886)	-	-	-	(1,238,886)
Proceeds from the issue of options	-	-	340,000	-	-	340,000
Issue of options to Directors	-	-	-	12,690	-	12,690
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(156,379)	(156,379)
Balance at 30 June 2007	**9,485,246**	**(1,238,886)**	**340,000**	**12,690**	**(156,379)**	**8,442,671**

Parent						
Shares issued during the year	10,444,000	-	-	-	-	10,444,000
Transaction costs	(958,754)	-	-	-	-	(958,754)
Loss attributable to members of the parent entity	-	(1,383,433)	-	-	-	(1,383,433)
Proceeds from the issue of options	-	-	340,000	-	-	340,000
Issue of options to Directors	-	-	-	12,690	-	12,690
Balance at 30 June 2007	**9,485,246**	**(1,383,433)**	**340,000**	**12,690**	**-**	**8,454,503**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2007

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 Australian Securities Exchange Limited listed public company, incorporated in Australia and operating in Australia and the United States of America. The Company was incorporated on 6 April 2006 and therefore this report is for the period from incorporation to 30 June 2007 (15 month period). No comparative balances appear because the Company has only been in operation since 6 April 2006.

(b) Adoption of new and revised standards

In the period ended 30 June 2007, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. 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.

(c) Statement of Compliance

The financial report was authorised for issue on 29 August 2007.

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 financial statements of Target Energy Limited and its subsidiaries as at 30 June 2007 (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 profit 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Significant accounting judgments, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions:

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 12.

(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.

(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 Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

(h) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(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 and its Australian subsidiaries 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 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 exchange rate at the period end.

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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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

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

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 transactions 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial assets (continued)

(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 assets 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 using the projected unit credit method. 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Share-based payment transactions

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 a Black-Scholes option pricing model, further details of which are given in Note 12.

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).

(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 per share

Basic earnings per share is calculated as net profit 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 per share is calculated as net profit 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 and evaluation

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 within Property, Plant and Equipment in the Balance Sheet. 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.

NOTE 2: REVENUES AND EXPENSES

	Consolidated 2007 $	Parent 2007 $
(a) Revenue		
Interest	203,400	221,277
	203,400	**221,277**
(b) Other income		
Other	51	51
	51	**51**
(c) Expenses		
Impairment of loan to controlled entity	-	184,866
Net foreign exchange losses	325,146	481,525
Depreciation of non-current assets	12,774	12,774
Option issue expense	12,690	12,690
Contribution to employee superannuation plans	34,504	34,504

NOTE 3: INCOME TAX

	Consolidated 2007 $	Parent 2007 $
Income tax recognised in profit or loss		
The major components of tax expense are:		
Current tax expense/(income)	-	-
Adjustments recognised in the current year in relation to the current tax of prior years	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-
Total tax expense/(income)	-	-

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

	Consolidated 2007 $	Parent 2007 $
Accounting loss before tax	(1,238,886)	(1,383,433)
Income tax benefit calculated at 30%	371,666	415,030
Non-deductible expenses:		
Foreign exchange loss	(97,544)	(144,458)
Option issue expense	(3,807)	(3,807)
Impairment of loan to controlled entity	-	(55,460)
Unrecognised tax losses	(270,315)	(211,305)
Income tax expense reported in the consolidated income statement	-	-

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.

NOTE 5: EARNINGS PER SHARE

	Consolidated 2007 Cents per share
Basic Loss per share:	3.2

The loss and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follow:

Loss for the period	(1,238,886)
Weighted average number of ordinary shares for the purposes of basic loss per share	38,475,610

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 2007 $	Parent 2007 $
Cash at bank	5,853,843	5,830,442
Cash on hand	300	300
	5,854,143	5,830,742

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

(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	5,854,143	5,830,742
	5,854,143	5,830,742

(ii) Reconciliation of loss for the period to net cash flows from operating activities:

Loss for the period	(1,238,886)	(1,383,433)
Option issue expense	12,690	12,690
Depreciation expense	12,774	12,774
Exploration expenditure written off	169,454	-
Impairment of loan to controlled entity	-	184,866
(Increase)/decrease in assets:		
Trade and other receivables	(36,039)	(36,039)
Increase/(decrease) in liabilities:		
Trade and other payables	89,519	86,507
Net cash from operating activities	(990,488)	(1,122,635)

NOTE 7: CURRENT TRADE AND OTHER RECEIVABLES

Trade receivables	7,186	7,186
Prepayments	16,855	16,855
GST recoverable	11,998	11,998
	36,039	36,039

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

NOTE 8: OTHER CURRENT FINANCIAL ASSETS

	Consolidated 2007 $	Parent 2007 $
Term deposit	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.

NOTE 9: OTHER FINANCIAL ASSETS (NON-CURRENT)

Loan to controlled entities	-	2,738,525
Less: provision for impairment	-	(184,866)
	-	2,553,659

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

	Consolidated			Parent		
	Office Equipment $	Computer Equipment $	Total $	Office Equipment $	Computer Equipment $	Total $
Period ended 30 June 2007						
Opening written down value	-	-	-	-	-	-
Additions	35,250	48,094	83,344	35,250	48,094	83,344
Disposals	-	-	-	-	-	-
Depreciation charge for the period	(2,853)	(9,921)	(12,774)	(2,853)	(9,921)	(12,774)
Closing written down value	32,397	38,173	70,570	32,397	38,173	70,570
At 30 June 2007						
Cost or fair value	35,250	48,094	83,344	35,250	48,094	83,344
Accumulated depreciation and impairment	(2,853)	(9,921)	(12,774)	(2,853)	(9,921)	(12,774)
Net carrying amount	32,397	38,173	70,570	32,397	38,173	70,570

The useful life of the assets was estimated as follows for 2007:

Office equipment	5 to 8 years
Computer equipment	2.5 years

NOTE 11: DEFERRED EXPLORATION EXPENDITURE

	Consolidated 2007 $	Parent 2007 $
Costs carried forward in respect of:		
Exploration and evaluation phase – at cost		
Balance at beginning of period	-	-
Expenditure incurred	2,690,892	-
	2,690,892	-
Expenditure written off	(169,454)	-
Total exploration expenditure	2,521,438	-

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

NOTE 12: 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 period:

	2007 No.	2007 Weighted average exercise price
Outstanding at the beginning of the period	-	-
Granted during the period	6,000,000	20 cents
Forfeited during the period	-	-
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at the end of the period	6,000,000	20 cents
Exercisable at the end of the period	6,000,000	20 cents

The outstanding balance as at 30 June 2007 is represented by:

- 6,000,000 options over ordinary shares with an exercise price of 20 cents each, exercisable on or before 30 June 2011.

The weighted average fair value of options granted during the period was $12,690.

The fair value of the equity-settled share options granted is estimated as at the date of grant using a Black-Scholes 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 used for the period ended 30 June 2007:

Volatility (%)	60
Risk-free interest rate (%)	5.7
Expected life of option (years)	5
Exercise price (cents)	20
Weighted average share price at grant date (cents)	2.5

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 13: TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated 2007 $	Parent 2007 $
Trade payables[1]	15,648	12,636
Employee entitlements	8,525	8,525
Accruals	13,000	13,000
Other payables	52,346	52,346
	89,519	86,507

[1] Trade payables are non-interest bearing and are normally settled on 30-day terms

NOTE 14: ISSUED CAPITAL AND RESERVES

Ordinary shares issued and fully paid	9,485,246	9,485,246

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Number	$
Movement in ordinary shares on issue		
Issue of promoter and seed capital shares	18,000,000	444,000
Issue of shares pursuant to the IPO Prospectus	50,000,000	10,000,000
Share issue costs		(958,754)
At 30 June 2007	68,000,000	9,485,246
Movement in 25 cent options on issue		
Issue of options pursuant to the Prospectus dated 9 March 2007	34,000,000	340,000
At 30 June 2007	34,000,000	340,000

Each option entitles the holder to subscribe for one share at an issue price of 25 cents on or before 26 November 2009.

Movement in 20 cent options on issue		
Issue of options 4 July 2006 (remuneration options issued to directors)	6,000,000	-
At 30 June 2007	6,000,000	-

Each option entitles the holder to subscribe for one share at an issue price of 20 cents on or before 30 June 2011.

Retained earnings/(Accumulated losses)

Movements in retained earnings were as follows:

Opening balance	-	-
Net loss for the period	(1,238,886)	(1,383,433)
Balance at 30 June 2007	(1,238,886)	(1,383,433)

Reserves	Consolidated				Parent			
	Employee Equity Benefits Reserve $	Option Premium Reserve $	Foreign Currency Translation Reserve $	Total $	Employee Equity Benefits Reserve $	Option Premium Reserve $	Foreign Currency Translation Reserve $	Total $
At 6 April 2006	-	-	-	-	-	-	-	-
Proceeds from the issue of options	-	340,000	-	340,000	-	340,000	-	340,000
Currency translation differences	-	-	(156,379)	(156,379)	-	-	-	-
Share-based payments	12,690	-	-	12,690	12,690	-	-	12,690
At 30 June 2007	12,690	340,000	(156,379)	196,311	12,690	340,000	-	352,690

NATURE AND PURPOSE OF RESERVES

Employee equity benefits reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 12 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 loans to foreign subsidiaries that are expected to be repaid in the long term.

NOTE 15: FINANCIAL INSTRUMENTS

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

	Carrying Amount 2007 $	Fair Value 2007 $
Consolidated		
Financial assets		
Cash and cash equivalents	5,854,143	5,854,143
Trade and other receivables	36,039	36,039
Other financial assets (current)	50,000	50,000
	5,940,182	5,940,182
Financial liabilities		
Trade and other payables	89,519	89,519
	89,519	89,519
Parent		
Financial assets		
Cash and cash equivalents	5,830,742	5,830,742
Trade and other receivables	36,039	36,039
Other financial assets (current)	50,000	50,000
	5,916,781	5,916,781
Financial liabilities		
Trade and other payables	86,507	86,507
	86,507	86,507

Period ended 30 June 2007	Greater than 1 year $	Total $	Weighted average effective interest rate
Consolidated			
Financial Assets			
Floating rate			
Cash and cash equivalents	5,854,143	5,854,143	4.5%
Floating rate			
Other financial assets (current)	50,000	50,000	5.5%
Parent			
Financial Assets			
Floating rate			
Cash and cash equivalents	5,830,742	5,830,742	4.5%
Floating rate			
Other financial assets (current)	50,000	50,000	5.5%

NOTE 16: EXPENDITURE COMMITMENTS	Consolidated 2007 $	Parent 2007 $
Exploration expenditure committed:		
Not longer than 1 year	2,891,000	-
1-5 years	-	-
Longer than 5 years	-	-
Total	2,891,000	-

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 2007	$ Investment 2007
Target Energy Limited	Australia	100	-
TELA (USA) Inc	USA	100	-
TELA Louisiana Limited Inc	USA	100	-
TELA Texas Holdings Limited Inc	USA	100	-
TELA Texas General LLC	USA	100	-
TELA Garwood Limited LP	USA	100	-

Target Energy Limited is the ultimate Australian parent entity and ultimate parent of the Group.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial period (for information regarding outstanding balances at year-end, refer to Note 9):

Related party		Sales to Related Parties $	Purchases From Related Parties $	Amounts Owed by Related Parties $	Amounts Owed to Related Parties $
Subsidiaries:					
TELA Louisiana Limited Inc	2007	-	-	2,130,757	-
TELA Garwood Limited LP	2007	-	-	607,768	-
Total		-	-	2,738,525	-

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

For the period ended 30 June 2007, the Group has made provision for the impairment of the loan to TELA Garwood Limited LP amounting to $184,866.

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.

NOTE 18: OPERATING LEASES

	Consolidated 2007 $	Parent 2007 $
Non-cancellable operating lease for premises:		
Not longer than 1 year	110,364	110,364
1 - 5 years	499,466	499,466
Longer than 5 years	-	-
	609,830	609,830

50% of these commitments are funded by a sub-tenant.

NOTE 19: EVENTS AFTER THE BALANCE SHEET DATE

There has not arisen in the interval between the end of the period 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 the following:

As announced on 15 July 2007, the Company has entered into a Letter Agreement with Aspect Energy LLC to participate in the drilling of two wells in October 2007. The Company expects to finalise a Participation Agreement and Joint Operating Agreement in the near future. It is anticipated that costs of approximately $1,686,000 will be incurred in the next 12 months.

NOTE 20: AUDITORS' REMUNERATION

The auditors of Target Energy Limited are HLB Mann Judd.

	Consolidated 2007 $	Parent 2007 $
Amounts received or due and receivable by HLB Mann Judd for:		
An audit or review of the financial report of the entity and any other entity in the consolidated entity	13,700	13,700
Other services in relation to the entity and any other entity in the consolidated entity		
– Independent Accountant's report for inclusion in IPO prospectus	7,500	7,500
	21,200	21,200

NOTE 21: 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

None

There were no changes of the Managing Director or key management personnel after reporting date and the date the financial report was authorised for issue.

(b) Compensation of Key Management Personnel

(i) Compensation Policy

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.

NOTE 21: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)

(b) Compensation of Key Management Personnel (continued)

(A) REMUNERATION REVIEWS

The Board of Directors of the Parent is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer (CEO) 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.

(B) COMPENSATION STRUCTURE

In accordance with best practice corporate governance, the structure of non executive director and executive compensation is separate and distinct.

(C) NON EXECUTIVE DIRECTOR COMPENSATION

Objective

The Board seeks to set aggregate compensation 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.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed.

The amount of aggregate compensation 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 consultants as well as the fees paid to non executive directors of comparable companies when undertaking the annual review process.

The compensation of non executive directors for the period ending 30 June 2007 is detailed below.

(D) EXECUTIVE COMPENSATION

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;
- Short Term Incentive (STI); 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 personnel by the Directors.

(E) 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.

(F) VARIABLE COMPENSATION – SHORT TERM INCENTIVE (STI)

Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the compensation received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Structure

Actual STI payments granted to each key management personnel depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance.

(G) 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.

Note 12 provides details of options granted under the LTI plan.

(ii) Compensation of Key Management Personnel for the period ended 30 June 2007

	Short-term				Post Employment		Long Term	Share Based Payment	Total	Total Performance Related
30 June 2007	Salary & Fees $	Cash Bonus $	Non Monetary Benefits $	Other $	Super $	Retirement Benefits $	Incentive Plans $	Options $	$	%
Directors										
Didier Murcia	21,300	-	4,214	-	-	-	-	-	25,514	0
Laurence Roe	186,792	-	4,214	-	13,211	-	-	4,230	208,447	2
Michael Martin	170,616	-	4,214	-	12,610	-	-	4,230	191,670	2
Paul Lloyd	62,000	-	4,214	-	1,800	-	-	4,230	72,244	6
Total	440,708	-	16,856	-	27,621	-	-	12,690	497,875	3

(iii) Compensation by category: Key Management Personnel

	Consolidated 2007 $	Parent 2007 $
Short-Term	457,564	457,564
Post Employment	27,621	27,621
Other Long-Term	-	-
Termination Benefits	-	-
Share-based Payments	12,690	12,690
	497,875	497,875

NOTE 21: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)

(b) Compensation of Key Management Personnel (continued)

(iv) Contract for Services

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 chose to commence negotiation 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 $240,000 pa inclusive of superannuation
- 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.

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

During the financial period options were granted as equity compensation benefits under a long-term incentive plan to certain key management personnel as disclosed above. The options were issued free of charge. The options are exercisable at any time on or before 30 June 2011 at a price of 20 cents per share. For further details relating to the options, refer to Note 12.

	Vested	Granted	Terms and Conditions for each Grant					
30 June 2007	No.	No.	Grant Date	Fair Value per option at grant date (Note 12)	Exercise price per option (Note 12)	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Didier Murcia	-	-	-	-	-	-	-	-
Laurence Roe	2,000,000	2,000,000	4 July 2006	0.2 cents	20 cents	30 June 2011	current	30 June 2011
Michael Martin	2,000,000	2,000,000	4 July 2006	0.2 cents	20 cents	30 June 2011	current	30 June 2011
Paul Lloyd	2,000,000	2,000,000	4 July 2006	0.2 cents	20 cents	30 June 2011	current	30 June 2011
Total	6,000,000	6,000,000						

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

No options were exercised during the period.

(e) Option holdings of Key Management Personnel (Consolidated)

						Vested as at 30 June 2007		
30 June 2007	Balance at beginning of period	Granted as remuneration	Options exercised	Net change Other	Balance at end of period 30/06/07	Total	Exercisable	Not Exercisable
Directors								
Didier Murcia	-	-	-	-	-	-	-	-
Laurence Roe	-	2,000,000	-	-	2,000,000	2,000,000	2,000,000	-
Michael Martin	-	2,000,000	-	-	2,000,000	2,000,000	2,000,000	-
Paul Lloyd	-	2,000,000	-	-	2,000,000	2,000,000	2,000,000	-
Total	-	6,000,000	-	-	6,000,000	6,000,000	6,000,000	-

(f) Shareholdings of Key Management Personnel (Consolidated)

Shares held in Target Energy Limited (number of ordinary shares)

30 June 2007	Balance at beginning of period	Granted as remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2007
Directors					
Didier Murcia	-	-	-	1,000,000	1,000,000
Laurence Roe	-	-	-	5,000,000	5,000,000
Michael Martin	-	-	-	4,000,000	4,000,000
Paul Lloyd	-	-	-	2,250,000	2,250,000
	-	-	-	12,250,000	12,250,000

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

(g) Loans to Key Management Personnel (Consolidated)

No loans have been provided to key personnel during the period.

(h) Other transactions and balances with Key Management Personnel

No other transactions with key management personnel have occurred during the period, other than legal fees of $36,871 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.

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 2007 and of their performance for the period 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 period ended 30 June 2007.

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

Didier Murcia
Director

Dated this 29th day of August 2007

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of

TARGET ENERGY LIMITED

We have audited the accompanying financial report of Target Energy Limited ("the company"), which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the period then ended, and the directors' declaration for both the company and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the end of the financial period or from time to time during the financial period.

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 state 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.

HLB Mann Judd (WA Partnership)

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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.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Target Energy Limited and included in the Directors' Report, would be on the same terms if provided to the directors at the date of this auditor's report.

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 2007 and of their performance for the period then ended; 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).

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L DI GIALLONARDO
Partner

Perth, Western Australia
29 August 2007

HLB Mann Judd (WA Partnership)

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SHAREHOLDER INFORMATION

DISTRIBUTION OF EQUITY SECURITIES

The distribution of members and their holdings of fully paid ordinary shares as at 22 August 2007 were as follows:

Shares held		No. of Shareholders	Percentage
1	- 1,000	6	0.80
1,001	- 5,000	66	8.90
5,001	- 10,000	72	9.72
10,001	- 100,000	491	66.28
100,001	and over	106	14.30
Total		**741**	**100.00**

	Min Parcel size	Holders	Units
Less than marketable parcel	2,702	18	30,341

TWENTY LARGEST SHARE SECURITY HOLDERS

The names of the 20 largest holders of fully paid ordinary shares as at 22 August 2007 are listed below:

Name	Number of Shares	Percentage
Petroe Exploration Services Pty Ltd	5,000,000	7.35
Sayers Investments (ACT) Pty Ltd	4,241,889	6.24
Hosier Investments Pty Ltd	4,000,000	5.88
Roscious Pty Ltd	1,531,250	2.25
Mr Cleanthe Hatziladas	1,375,000	2.02
Mrs Sharon Marie Lloyd	1,250,000	1.84
Irrewarra Investments Pty Ltd	1,160,235	1.71
Mr Paul Geoffrey Lloyd & Mrs Sharon Marie Lloyd	1,000,000	1.48
Ridgeback Holdings Pty Ltd	1,000,000	1.48
MPH Resources Pty Ltd	1,000,000	1.48
Goldman Sachs JB Were Capital Markets Ltd	900,000	1.32
Menzies Limited	656,250	0.97
Urio Investments Pty Ltd	650,000	0.97
Sprark Pty Ltd	605,000	0.89
Kurrawa Pty Ltd	600,000	0.88
Hannes Investments Pty Ltd	600,000	0.88
Mr David John Horne	466,000	0.68
National Nominees Limited	465,000	0.66
Pedigree Promotions Pty Ltd	450,000	0.66
Menzies Limited	450,000	0.65
Total	**27,400,624**	**40.29**

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 22 August 2007 are listed below:

Name	Number of Shares	Percentage
Petroe Exploration Services Pty Ltd	2,500,000	7.36
Hosier Investments Pty Ltd	2,000,000	5.89
Mr Bruce Myles	1,879,208	5.53
Sayers Investments (ACT) Pty Ltd	1,225,000	3.61
Mr Geoff Barnes	1,000,000	2.94
Number 7 Investments Pty Ltd	1,000,000	2.94
Bond Street Custodians Limited	672,500	1.98
Mrs Sharon Marie Lloyd	625,000	1.84
Menzies Limited	553,125	1.63
Mrs Janice Leonie Smartt	512,500	1.51
Mr Paul Geoffrey Lloyd & Mrs Sharon Marie Lloyd	500,000	1.47
Ridgeback Holdings Pty Ltd	500,000	1.47
MPH Resources Pty Ltd	500,000	1.47
Mrs Theodosia Baxanis	500,000	1.47
FA & MA Ciccone Pty Ltd	362,500	1.07
Mr Cleanthe Hatziladas	312,500	0.92
Sprark Pty Ltd	302,500	0.89
Kurrawa Pty Ltd	300,000	0.88
Hannes Investments Pty Ltd	300,000	0.86
Ninkasi Pty Ltd	250,000	0.75
Total	**15,794,833**	**46.48**

The names of the holders of options (exercisable at 20 cents on or before 30 June 2011), as at 22 August 2007 are listed below:

Name	Number of Shares	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**

SUBSTANTIAL SHAREHOLDERS

The Company's Register of Substantial Shareholders, prepared in accordance with section 715 of the Corporations Act 2001, recorded the following information as at 22 August 2007:

Name	Number of Shares	Class of share
Petroe Exploration Services Pty Ltd (1)	5,000,000	ORD
Hosier Investments Pty Ltd ATF the Hosier Trust (2)	4,000,000	ORD

(1) a company in which Mr Laurence Roe is a Director and shareholder

(2) a trust in which Mr Michael Martin is a beneficiary

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