TARGET ENERGY LIMITED ABN 73 119 160 360

Annual Report **2011**

Contents

Corporate Philosophy

Target Energy Limited was established in 2006 with the simple objective of creating a successful publicly-listed petroleum exploration and production company.
The company philosophy is to balance low and medium risk drilling, designed to build a stable revenue stream, with higher risk and higher impact drilling that has the potential to add significant value for shareholders.

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

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

In recent times, the Company has also expanded its focus to include unconventional plays, such as the "Wolfberry" oil resource play in West Texas. The Company now has a presence in this play and will be looking for opportunities to expand its position.

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.

Corporate Directory

Directors

Christopher Rowe, M.A
Non Executive Chairman

Laurence Roe, B.Sc
Managing Director

Graham Riley, B.Jur, LLB
Non Executive Director

Stephen Mann, CA
Non Executive Director

Dr Ralph Kehle
Non Executive Chairman - TELA (USA)

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

Company Secretary

Rowan Caren, B.Com, CA

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ASX Code:

TEX (Shares)
TEXOB (Options)

Chairman's Report

Dear Shareholders,

The financial year ended June 2011 has been one in which your company has established a firm base in one of the most active resource plays in the United States. Associations brought by our new U.S. subsidiary chairman, Dr Ralph Kehle, have enabled Target to take a 60% working interest in the Fairway Project with the dual targets of the Wolfberry and the deeper Fusselman carbonate. While the Australian market is more familiar with the big shale resource plays such as the Eagle Ford, the Wolfberry development in the Permian basin of west Texas has been dramatic. There are many well known companies involved and one, Pioneer, is planning to drill 1,000 wells next year alone. The Wolfberry is an oil play with vertical wells at affordable cost and with a very high success rate. Success in the Fusselman, which underlies the Wolfberry in some parts of the basin, can prove a major bonus.

I am delighted that the first well in this project, BOA 12 #1, is to be completed as a producer, with potential pay encountered in all of our primary and secondary targets. At 40 acre spacing Target has a further 63 well locations on this Fairway acreage and is looking to pick up additional leases. We will continue to seek out new projects this year and will work to accelerate the development of the East Chalkley field in Louisiana (Target 35% working interest) which has been held up by the decision of the operator to sell its interest in the field.

Target has benefited greatly from the support of its major shareholder Investmet, evidenced by its early exercise of options to boost our cash reserves. The addition of Dr Kehle, Graham Riley who is well known in the Australian oil sector and Stephen Mann who brings accounting and finance expertise, to your board, greatly strengthens our abilities and experience.

Our thanks also go to our Managing Director Laurence Roe for his hard work. Laurence is presently resident in Houston to establish Target's US offices and to ensure "hands on" management. During his absence from Australia shareholders with queries are welcome to contact myself.

Finally, I would also like to extend my thanks to our shareholders for their continued support. I look forward to meeting with you at the forthcoming Annual General Meeting.

Christopher Rowe
Chairman

Highlights

✓ **13 December 2010**	Target secures Investmet as major investor; commences recapitalisation
✓ **1 January 2011**	Graham Riley, Ralph Kehle appointed to Target Boards
✓ **9 March 2011**	Target secures 60% WI in West Texas oil resource play
✓ **23 March 2011**	Stephen Mann appointed to Target board
✓ **13 April 2011**	Target fracs (Weldon #1) Buffalo well
✓ **5 May 2011**	Target completes re-capitalisation having raised $3.6m
✓ **15 June 2011**	SML (Snapper) A3 workover yields over 100 BOPD
✓ **16 June 2011**	Target secures interest in 200 Bcf / 12 mmBC Shepard's Channel Prospect
✓ **10 September 2011**	Target spuds BOA 12 #1 well at Fairway Project in West Texas
✓ **2 October 2011**	BOA 12 #1 well at Fairway Project in West Texas to be completed as an oil and gas producer

Corporate Overview

Laurence Roe
Managing Director

This past year has seen Target Energy continue to position itself for strong future growth. In addition to our ongoing production from three fields in the onshore US Gulf Coast region, with the Fairway project in West Texas the Company has now secured a position in the lucrative Wolfberry oil resource play. Drilling commenced in the project on 10 September 2011, with the first well, the BOA 12 #1 now being completed as a producer after encountering potential pay in the Wolfberry and Fusselman sections.

During the year, Target undertook a fracture stimulation program in Jim Wells County as part of its investigation of a new resource play concept in South Texas (the Buffalo Project). The Company also agreed to participate in a low cost test of a 200 billion cubic feet (Bcf)/12 million barrels of condensate (mmBC) by-passed pay prospect in La Fourche Parish Louisiana, slated for October 2011.

The Company has also instituted a number of changes at a corporate level, again with a view to positioning itself for growth. On 13 December 2010, Target announced the appointment of Graham Riley (effective 1 January 2011) and Stephen Mann (effective 23 March 2011) as non-executive directors and the appointment of Dr Ralph Kehle as non-executive Chairman of Target's US subsidiary, TELA (USA), Inc from 1 January 2011. As part of this re-organisation, founding directors Paul Lloyd and Mike Martin resigned from the board, with Mr Martin taking a non-executive director's position in a number of Target's US subsidiaries.

In addition, the Company undertook a recapitalisation in late 2010 and early 2011, raising approximately $3.6 million through a two-tranche placement and a Rights Issue. The recapitalisation was supported by Investmet Ltd, which is now Target's largest shareholder and is represented on the board by Stephen Mann. Investmet is an unlisted public company created to pursue a variety of investment opportunities in resource projects with strong future demand growth and to incubate, develop and enhance the value of these investments through financial, technical and corporate support

Target has also been very active in numerous projects:

- In February 2011, the Company announced that it was taking a 60% WI in the Fairway project in West Texas. The project covers 2,550 acres (with scope for expansion) in the Wolfberry oil resource play in Howard and Glasscock Counties. Drilling of the first well, BOA 12 #1, commenced on 10 September 2011 with the well reaching Total Depth on 2 October 2011 and encountering sufficient oil and gas shows in the Wolfberry and Fusselman sections for it to be completed as a producing well. Additional potentially commercial oil shows were noted in the shallower San Andres formation.
- In June 2011, the company announced it had agreed to participate in a test of the 200 Bcf/12 mmBC Shepard's Channel gas and condensate prospect in La Fourche Parish, Louisiana. Work is expected to commence in October.
- Production continues at our Merta #1 well in Wharton County, Texas and at the three "Snapper" wells in our Section 28 project in St Martin Parish, Louisiana. In June 2010, the SML (Snapper) #A-3 well was completed for production in the Lower 3rd Marg Tex sand. The well had previously been producing gas from the Hackberry sand. The well was brought back online in June and is presently producing approximately 110 BOPD with 300 mcfgd and no water. Prior to the workover, gas production from the Hackberry had declined to approximately 150 mcfgd - this successful completion in the Lower 3rd Marg Tex will add to our reserves and cash flow.
- At the East Chalkley oil field, plans to drill the Pine Pasture #3 oil development well in the latter part of 2010 were put on hold following the operator's decision to postpone the program pending a potential sale of their interests in the field. At this time no sale has taken place and Target is considering its options. East Chalkley has a "most likely" recoverable reserves of 1.7 mmBO and an upside recoverable reserve estimate of 4 mmBO.
- In April 2011 the company fracced the initial well at its Buffalo project in Jim Wells County in South Texas. The frac was undertaken successfully, but the well did not yield oil and gas in commercial quantities and is now shut-in. The Company is assessing its forward program in this project where it retains a significant leasehold presence.

In addition to the above, in September 2011, the Company opened its office in Houston Texas. Having a permanent local presence in the US has been one of the Company's objectives - Houston was chosen as it is both a major oil and gas centre and is central to all of Target's current operations.

The Company continues to investigate new opportunities.

PROJECT REVIEW | Drilling/Completions

Texas

Jim Wells County

Weldon #1 (Buffalo Project - Target Energy 100% working interest BPO / 50% WI APO)

The Weldon #1 well is located in Jim Wells County in South Texas and was the initial test well for the Buffalo project. The well was perforated in six zones in the Frio Shale interval on 14 March 2011 and was fracture-stimulated ("fracced") on 13 April 2011. The frac process was successful and the well immediately began flowing back load water. A separator was installed on 6 May and oil and gas were measured at rates of approximately 50 mcfgd and 5 BOPD. The rates later increased up to 60 mcfgd and 6 BOPD, before easing off and appearing to stabilise at 35 mcfgd and 2 BOPD, with a consistent 240 BWPD. As there was no meaningful indication that the oil and gas rates could be expected to increase any further the well was shut in on August 20 2011. The Company is presently considering further options.

Howard County

BOA 12 #1 (Fairway Project - Target Energy 60% working interest)

The Fairway Project currently covers 2,553 acres. Target holds a 60 per cent working interest, with Trilogy Operating, Inc ("Trilogy") having 30 per cent and Avalon Oil 10 per cent. Trilogy is the operator.

The first well to be drilled in the project, the BOA 12 #1 well, is located in the T&P Survey, Block 33, T2S, Section 12 in Howard County, Texas (Figure 1).

The well targeted the prolific Wolfberry section - recognised as one of the United States' top oil resource plays and with the potential to be a company-maker for Target. The well also tested the deeper Fusselman Formation, a potentially highly-productive oil zone.

Drilling commenced on 10 September and reached Total Depth at 3,075.4m on 2 October 2011. The well drilled through a 1,080m section in the "Wolfberry" zone which exhibited numerous shows while drilling, in particular in the Wolfcamp, Strawn and Mississippian formations. An initial review of the log data confirmed the potential productivity of this interval.

Logs also confirmed that the well intersected potential oil pay over a 5m interval in the deeper Fusselman formation.

Furthermore, the well encountered oil at a depth of approximately 1,312m through the shallower San Andres formation (the San Andres is the main producing horizon in the adjacent Howard Glasscock field). San Andres production cannot be combined with that from the Wolfberry, so the partners will assess the feasibility of drilling a shallow well next to BOA 12 #1 to produce separately from this zone.

Additional shows were also noted in the Clearfork formation.

At the time of writing, production casing was being run in the well, with a completion and testing program expected to commence in mid-October.

Recoverable volumes for BOA 12 #1 in the Wolfberry section have been estimated at up to 180,000 barrels of oil equivalent. Based on the information available to date, Target believes such a discovery, following fracture-stimulation, could initially produce at rates between about 100 -150 BOPD, capable of paying the well out within 2 years at current prices.

The well also targeted the deeper Fusselman Formation, which also has the potential to generate immediate production and cash flow. Recent drilling, just three miles south of the BOA 12 #1 location by Trilogy Operating, Inc - who is also operator in the Fairway project - has recorded several Fusselman discoveries in recent times with flow rates in excess of 300 BOPD (also shown on Figure 1).

The Fusselman Formation is below the Wolfberry section and generally exhibits good porosity and permeability. As the Fusselman appears to be potentially productive for oil at the BOA 12 #1 well (based on mudlog shows and wireline log analysis), it will be immediately tested and put on production. Any testing of the Wolfberry section will be deferred until economic production from the Fusselman has ceased (current Railroad Commission regulations preclude the coÐmingling of the Fusselman and Wolfberry, though there is a proposal before the Commission at this time to allow operators to coÐmingle these zones).

Up to 64 wells can be drilled on the Fairway acreage. This figure could be increased substantially in light of a recent decision by the Railroad Commission of Texas (the regulator of oil and gas activates in Texas) to halve the minimum drill spacing to 20 acres on the Spraberry Trend at Wolfberry. At a 20 acre spacing, up to 128 wells could be drilled at Fairway, potentially doubling the value of the asset for Target. Some companies in the area are also investigating horizontal drilling and the merits of water flooding in the Wolfberry to further increase recovery rates.

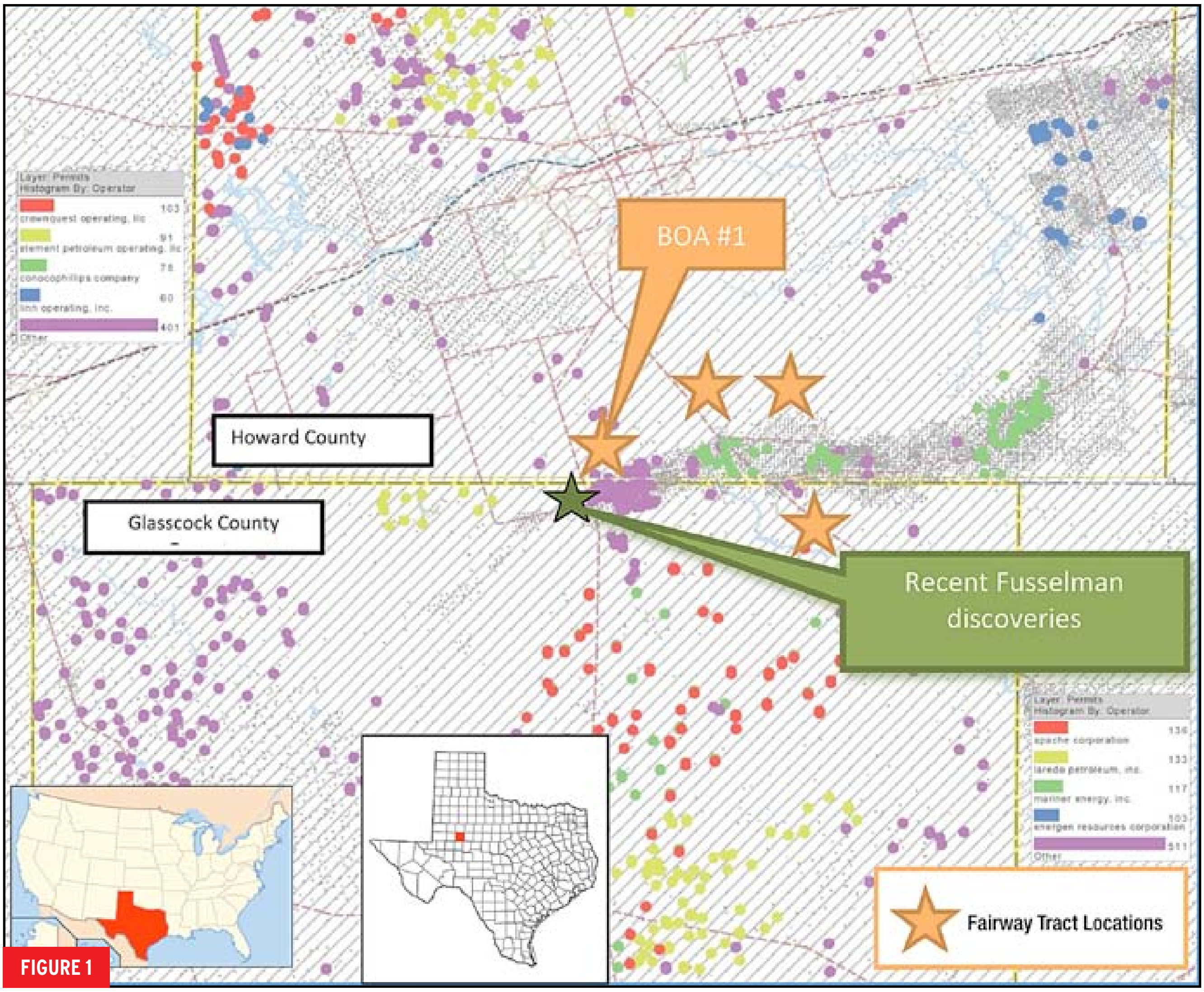


FIGURE 1

Location of Fairway Tracts and the BOA 12 #1 well. Coloured dots show well locations permitted just in Howard and Glasscock Counties since 2007.

Exploration

Louisiana

La Fourche Parish

Shepard's Channel prospect (Target Energy 7% working interest)

On 20 June 2011, Target announced that it had agreed to participate in a test of the 200 Billion cubic feet (Bcf) / 12 mmBC Shepard's Channel gas and condensate prospect in La Fourche Parish, Louisiana.

Target will earn a 7% working interest (WI) in the project by paying its share of acreage costs and the costs of re-entering an existing borehole to complete the well in a hitherto untested sand.

The well will be re-entered and completed for production over a 50-metre interval of porous and potentially gas-charged sands which were never tested when drilled in the early 1980s. These sands were not the primary target in the well and the operator did not consider them to be prospective. The primary target was not intersected and the well was abandoned.

Later acquisition of 3D seismic in the region defined the extent of the untested sands and showed them to be deposited in a channel covering approximately 1,200 acres. More importantly, detailed analysis of the well data now strongly suggests that indications of the hydrocarbon potential of these sands were suppressed on the wireline logs and that if tested, they could have flowed at potentially commercial rates.

Based on the well data and the 3D seismic, there is the potential for this prospect to hold up to 200 Bcf of recoverable gas along with 12 mmB of condensate.

Currently scheduled for October 2011, the proposed re-completion is designed to properly test the sands and to confirm the analysis. If successful, additional wells will be required to fully develop the feature.

Appraisal & Development

Cameron Parish

East Chalkley (Target Energy 35% working interest)

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

Field production is presently around 72-87 BOPD from the Pine Pasture #1 and #2 wells along with approximately 480 BWPD which is disposed on-site using a salt-water disposal well drilled by the partners in late 2009.

A planned up-dip oil development well (Pine Pasture #3 well) was proposed to be drilled in late 2010, but was later withdrawn by the operator.

An independent Technical Specialist has assigned P50 recoverable reserves/ resources of 1.7 million barrels of oil (technically ultimately recoverable) to the field and, to 30 June 2011, Pine Pasture #1 and #2 have produced a gross 101,605 barrels of oil.

Target is presently considering its options at East Chalkley.

Production

Table 1 summarises Target's production for the 2010-2011 year and Figure 2 shows the monthly production in Barrels of Oil equivalent for the same period.

Actual sales from production in the period to 30 June 2011 (net of royalties and state taxes) were A$1.04 million.

Well	Production Commenced	TEX Working Interest	Production 1/7/10 to 30/6/11 (Gross)		Production 1/7/10 to 30/6/11 (Net to TEX WI)		Comment
			Oil (Bbl)	Gas (MCF)	Oil (Bbl)	Gas (MCF)	
SML #A-1	2-Aug-07	25%	443	111,143	110.75	27,786	Flowing
SML #A-2	9-Feb-08	25%	6,125	20,018	1,531.25	5,005	Flowing
SML #A-3	12-Nov-09	25%	2,035	78,633	508.75	19,658	Flowing
Pine Pasture #1	22-Dec-09	35%	4,610	0	1,613.53	0	Flowing
Pine Pasture #2	24-Jul-08	35%	20,689	12,673	7,241.11	4,436	Flowing
Merta #1	10-Jun-10	25%	1,834	126,514	458.50	31,629	Flowing
Total			35,736	348,981	11,464	88,513	

Table 1 Target Energy 2010-2011 Production Summary

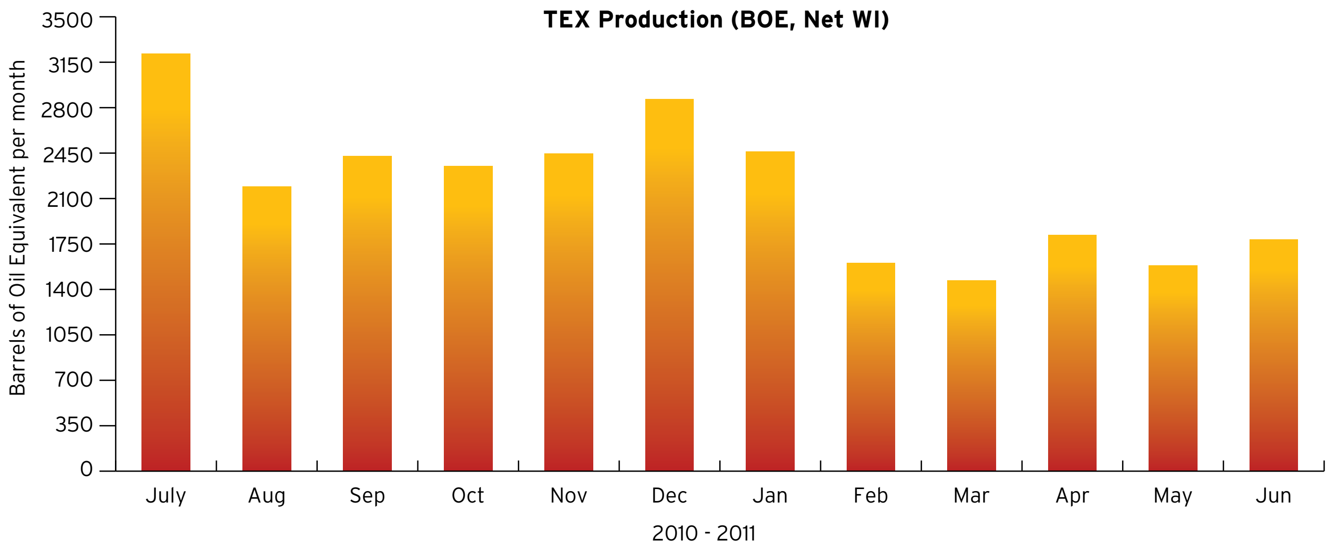


Figure 2 Target Energy Monthly Production (BOE)

NOTE: In accordance with ASX Listing Rules, any hydrocarbon reserves and/or drilling update information in this report has been reviewed and signed off by Mr Laurence Roe, B Sc, Managing Director of Target Energy, who is a member of the Society of Exploration Geophysicists and has 30 year's experience in the sector. He consents to the inclusion of that information in the form and context in which it appears.

Texas

Wharton County

Merta #1 (Target Energy 25% working interest)

Production continues at Merta #1 from the Cook Mountain Sands (Figure 3). A fracture stimulation was successfully undertaken on 19 October 2010.

At 30 June 2011 the well had produced 143 MMCFG plus 2,031 barrels of condensate. The well is presently producing at a rate of approximately 0.3 MMCFGD with 4 BOPD. Initial reserves were estimated at 700 mmcfg - remaining reserves have not been independently audited at this time.

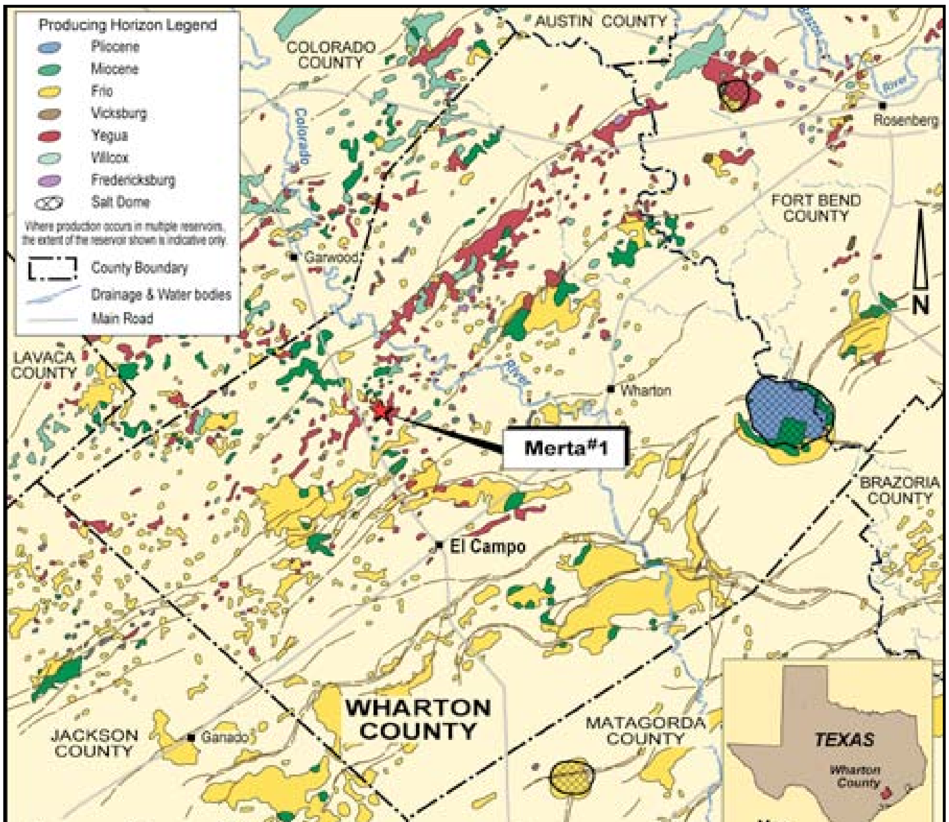


FIGURE 3

Merta #1 – Wharton Co, Texas

Louisiana

St Martin Parish

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

At 30 June 2011, the well had produced 1,025 MMCFG plus 3,777 barrels of condensate. The well is presently producing from the 3rd Marg Tex sand at a rate of approximately 0.25 MMCFGD with associated condensate. Remaining proved and probable reserves at 30/6/11 are 1.14 BCF plus 55,590 barrels of oil. The locations of the Snapper wells are shown in Figure 4.

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

At 30 June 2011, the well had produced 481 MMCFG plus 34,240 barrels of oil and condensate. Snapper #A-2 is currently completed for oil production from the 3rd Marg Tex sand. The well is presently producing approx. 15 BOPD plus 50 mcfgd.

Remaining proved and probable reserves at 30/6/11 are estimated at 0.03 BCF plus 9,090 barrels of oil.

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

At 30 June 2011, the well had produced 317 MMCFG plus 3,715 barrels of oil and condensate from the Hackberry A4 sandstone.

Remaining proved and probable reserves at 30/6/11 were estimated at 0.65 BCF plus 725 barrels of oil. However, at the end of the reporting period, the well was recompleted for production from the Lower 3rd Marg Tex sand, which had not been assigned any proved or probable reserves. The recompletion was successful, with the sand proving to be productive and with no signs of pressure depletion. Production from the Lower 3rd Marg Tex commenced in June 2011 and at the time of writing was flowing at rates up to 110 BOPD with 300 mcfgd. A preliminary internal assessment indicates this zone may recover between 27,000 and 90,000 barrels of oil.

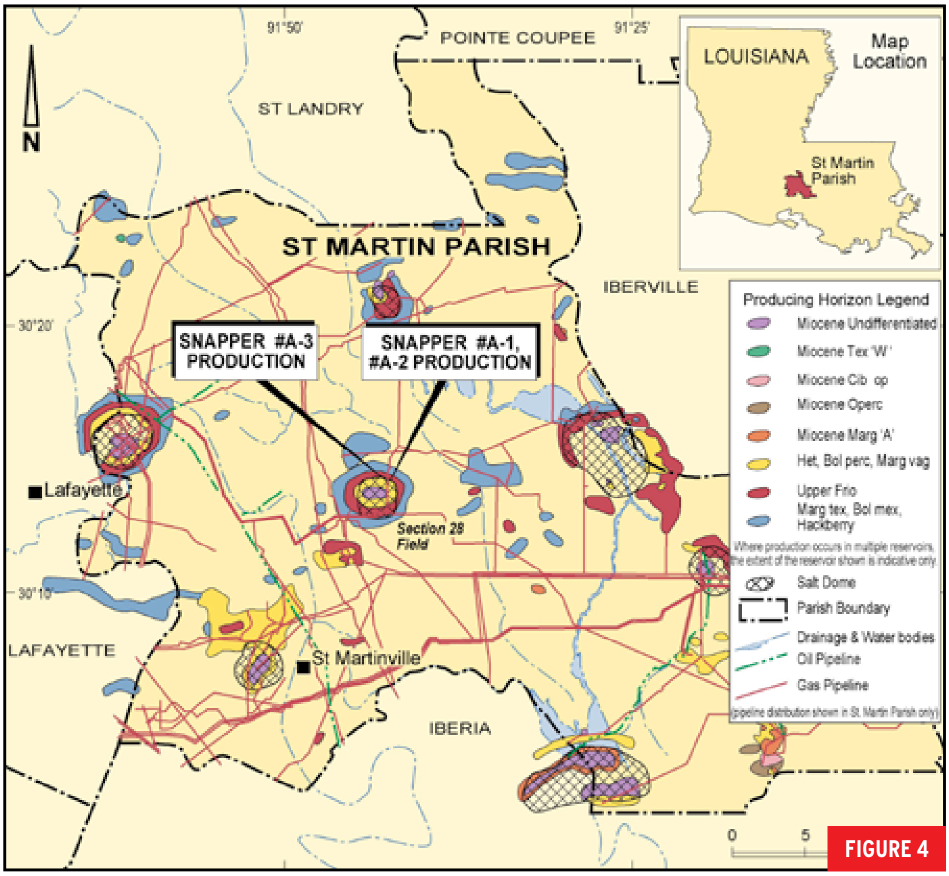


FIGURE 4

Section 28 Production – St Martin Parish, Louisiana

Cameron Parish

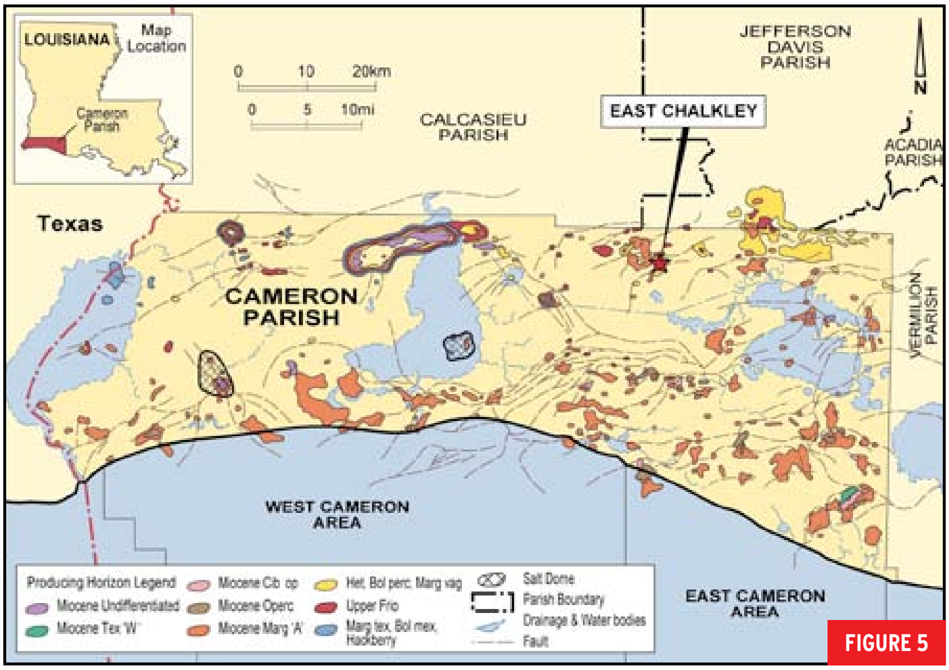
East Chalkley Field (Target Energy 35% working interest)

At 30 June 2011, the Pine Pasture #1 well had produced 7,803 barrels of oil. The well is presently shut-in awaiting resolution of mechanical issues with the salt-water disposal well (SWD). Prior to shut in, the well was producing approximately 12-15 BOPD with 145 BWPD.

At 30 June 2011, the Pine Pasture #2 well had produced 69,432 barrels of oil. The well is presently producing approximately 62 BOPD with 473 BWPD.

Based on an estimated range of reserves for the Pine Pasture #1 and #2 wells from 270,000 BO (2P) to 385,000 BO (3P), remaining reserves for the wells, at 30/6/11, range from 168,000 BO to 283,000 BO.

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



East Chalkley Oil field – Cameron Parish, Louisiana

Reserves

Target Energy's Section 28, East Chalkley and Merta #1 production assets are summarised below (Figure 6).

Proved and Probable
214960 BOE

Possible
185817 BOE

Contingent Resources (Best estimate)
263006 BOE

Contingent Resources (High estimate)
442579 BOE

Total Net Reserves and Resources 1.1 million BOE

Figure 6: Target Energy net reserves and resources as at 30/06/11

Notes

1. *East Chalkley: Audited Reserves updated to 01/01/11 by Risc Pty Ltd.*
2. *SML A1, A2, A3: Audited Reserves updated to 30/06/10 by Mike Harper and Associates.*
3. *Merta #1: Target Energy internal estimate.*

Glossary of Technical Terms

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

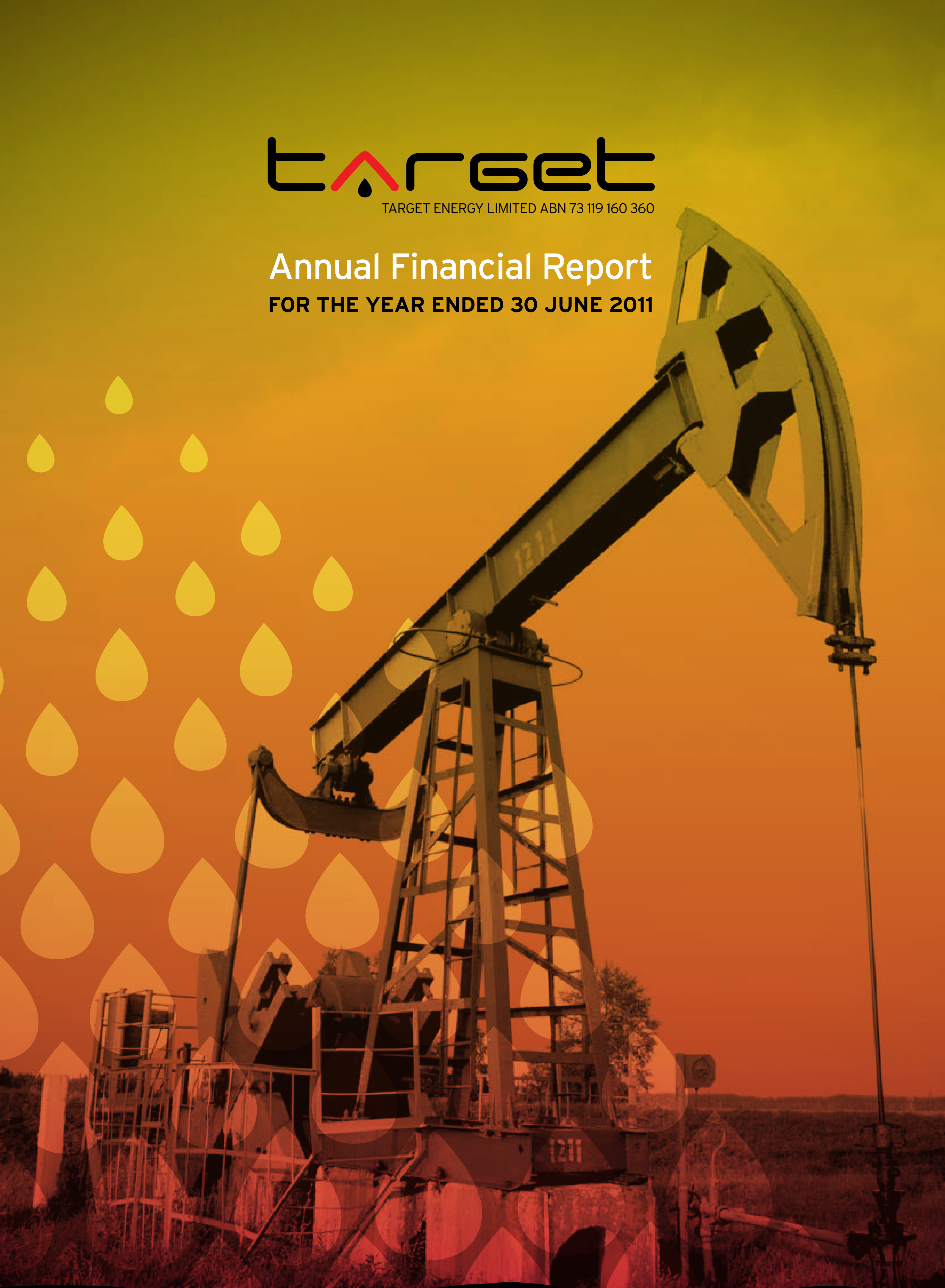
md	A millidarcy. A unit of measure permeability, ie the ability of liquids to flow through a porous solid.
Measured Depth (MD)	The length of the wellbore, as if determined by a measuring stick. This measurement can differ from the true vertical depth in deviated or angled wellbores.
MMbls, mmbls	Million barrels. A measure of a volume of liquid.
MMBC, mmbc	Millions of barrels of Condensate.
MMBO, mmbo	Millions of barrels of oil.
MMCF, mmcf	Million cubic feet. A widely quoted unit used for natural gas measurement.
MMCFD, mmcfd	Million cubic feet per day. A measure of gas flow rates from a producing well.
MMCFG, mmcfg	Million cubic feet of gas. A measure of a volume of gas.
MMCFGD, mmcfgd	Millions of cubic feet of gas per day. A measure of the rate of flow of gas.
Perforate	To pierce holes through well casing within an oil or gas-bearing formation by means of a perforating gun lowered down the hole and fired electrically from the surface. The perforations permit production from a formation which has been cased off.
Permeability	A measure of the ability of liquids to flow through a porous solid.
Petroleum	(See Hydrocarbons)
Pipeline	A pipe through which any hydrocarbon or its products is delivered to an end user.
Porosity	The percentage of open pore space in a rock.
Possible Reserves	Those Unproved Reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable Reserves.
Probable Reserves	Those Unproved Reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.
Prospect	An undrilled, and therefore hypothetical trap whose technical and commercial uncertainties are sufficiently well understood and is of sufficient size and probability of success to justify drilling.
Proved or Proven Reserves	Those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.
Recoverable Reserves	That portion of the oil and/or gas in a reservoir that can be removed using currently available techniques.
Reserves	The volume of oil and gas that can be recovered at the surface. Generally used in the context of commerciality.
Reservoir	A porous rock unit in which hydrocarbons occur in an oil field.

Risk	A measure of uncertainty relating to the likelihood of finding hydrocarbons, or, the likelihood that any or all of the individual geological elements required for the accumulation of hydrocarbons is met.
Sandstone	A sedimentary rock composed primarily of sand size grains, usually quartz. A common hydrocarbon reservoir rock.
Seal	An impermeable rock unit that prevents hydrocarbons from escaping from the reservoir.
Seismic reflection	An event observed on seismic data that corresponds to a given rock layer in the subsurface
Sediment	Generally, water borne debris that settles out of suspension.
Sedimentary rock	A type of rock formed by aggregation of sediments.
Shale	A very fine-grained rock often thinly layered. An important seal rock.
Show	An indication while drilling that hydrocarbons are present in the well bore.
Source/ source rock	An organic rich rock (typically shale) capable of generating hydrocarbons under certain conditions of temperature and pressure.
Spud	To commence drilling operations.
Stratigraphy	The study of the vertical and horizontal distribution of stratified rocks, with respect to their age, lateral equivalence and environmental deposition.
Structural trap	Generally, a hydrocarbon trap formed by dipping rock layers and/or faults.
Structure	A geological feature usually higher in elevation than the surrounding rock, formed by local deformation of the rock layers.
TCF	Trillion cubic feet or 28.317 billion cubic metres. A unit commonly used in quoting volumes of natural gas.
TD	Total Depth. The final depth reached in drilling the well.
Trap	A structure capable of retaining hydrocarbons.
Trend	A particular direction in which similar geological features are repeated.
TVD	True vertical depth. The vertical distance from a point in the well (usually the current or final depth) to a point at the surface, usually the elevation of the rotary kelly bushing (RKB). The TVD is independent of the actual wellbore path.
Unproved Reserves	Unproved Reserves are based on geological and/or engineering data similar to that used for Proven Reserves but technical, contractual, economic or regulatory uncertainties preclude such reserves being classified as Proven – Unproved Reserves can be classified as Probable Reserves and Possible Reserves.
Working Interest (WI)	Target's percentage interest in a project before royalties and state taxes.

TARGET ENERGY LIMITED ABN 73 119 160 360

Annual Financial Report

FOR THE YEAR ENDED 30 JUNE 2011



Directors' Report

Your directors submit the annual financial report of the consolidated entity, comprising Target Energy Limited ("Target" or the "Company") and its controlled entities, for the financial year ended 30 June 2011. In order to comply with the provisions of the Corporations Act, the directors report as follows:

Directors

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

Christopher Rowe
MA

Chairman

Mr Rowe graduated from Cambridge University in Economics and Law. Chris practised in the UK and Perth where he consulted to both the oil and gas and hard rock sectors of the resource industry, before becoming the Executive Chairman of Cultus Petroleum N.L. in 1979 where he served until 1990. During his tenure, the company participated in a number of commercial discoveries in Australia, New Zealand and the USA.

Mr Rowe is currently Chairman of ASX Listed Northern Star Resources Ltd and he is on the advisory committee of the US-based Avalon and Hermosa Oil and Gas Production Partnerships. He is also the Chairman of fund manager Hawkesbridge Capital Pty Ltd.

In addition to his resource-related activities Chris Rowe acted as one of the Counsel Assisting the Royal Commission into "W.A. Inc" and has served on the E.P.A of Western Australia as both a member and as Deputy Chairman.

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

- Tangier Petroleum Limited
- Northern Star Resources Limited*

** denotes current directorships*

Laurence Roe
B.Sc

Managing Director

Mr Roe is a petroleum professional with 30 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 in domestic and international projects.

Mr Roe was appointed Exploration Manager for Bounty Oil & Gas NL in 2001, responsible for its portfolio of Australian and international acreage. He was later appointed as Managing Director. Mr Roe was co-founded Target Energy in 2006 and has acted as Managing Director since that time.

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

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

Graham Riley

B.Juris, LLB

Non Executive Director
appointed 1 January 2011

Mr Riley is a highly regarded oil and gas professional and has joined the Target board in a non-executive role.

A founding Director of ARC Energy and former non-executive director of Adelphi Energy, Mr Riley is a qualified legal practitioner. Mr Riley has been responsible for the foundation and growth of a number of petroleum and mining companies.

Mr Riley, who also holds private petroleum interests in the US, brings a wealth of experience to the Target board through his involvement with a number of other oil and gas companies and other resource industry directorships and has a proven record of assisting to generate value for shareholders.

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

- Buru Energy Limited*
- Giralia Resources Limited
- Entek Energy Limited*
- Gascoyne Resources Limited*

** denotes current directorships*

Stephen Mann

FCA

Non Executive Director
appointed 23 March 2011

Stephen is a Fellow of the Institute of Chartered Accountants of Australia and has more than 30 years experience as a chartered accountant prior to his retirement from private practice in 2003. Since 2003 Stephen has acted as the chief financial officer and more recently as a consultant to the Nacap Asia Pacific Group which is a large Dutch group specialising in the oil and gas pipeline construction.

Stephen is a shareholder in and a director of Investmet Limited, Target's largest shareholder.

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

- Pegasus Metals Limited*

** denotes current directorships*

Michael Martin

B.Sc (Hons), F.G.S.

Non Executive Director
resigned 23 March 2011

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

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

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

Paul Lloyd
B.Bus CA

Non Executive Director
resigned 31 December 2010

Paul Lloyd is a Chartered Accountant with over 25 years commercial experience. Mr Lloyd operates his own corporate consulting business, specialising in the area of corporate, financial and management advisory services.

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

- Beacon Minerals Limited*
- South American Ferro Metals Limited*
- Sunseeker Minerals Limited*
- Firestrike Resources Limited*

** denotes current directorships*

Rowan Caren
B.Com CA

Company Secretary

Mr Caren graduated with a Bachelor of Commerce (Accounting) from the University of Western Australia and is a member of the Institute of Chartered Accountants in Australia. He qualified with PricewaterhouseCoopers and worked for them in Australia and overseas for six years. He has since been directly involved in the exploration industry for a further 15 years, initially with a minerals explorer based in Perth but with operations in South America and Asia, for which he acted as an executive and company secretary. In 2004 he created a specialist company secretarial and advisory consultancy, Dabinett Corporate Pty Ltd. Dabinett Corporate provides financial and corporate services to several listed and unlisted companies involved in the resources sector.

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 Convertible Notes[1]	Number of unlisted options	Number of listed options[6]	Number of fully paid ordinary shares
Christopher Rowe	60,000	5,039,504[2]	500,000	6,027,584
Laurence Roe	40,000	1,113,633[3]	352,727	6,689,360
Graham Riley	-	6,768,745[4]	-	7,040,795
Stephen Mann	-	1,893,750[5]	1,500,000	3,543,750

1. Convertible notes have a face value of $1.00 each and are exercisable into 20 shares on 19 November 2012.
2. 1,679,833 exercisable at 5 cents on or before 31 March 2012, 1,679,835 exercisable at 7 cents on or before 31 March 2013 and 1,679,836 exercisable at 10 cents on or before 31 March 2014.
3. 371,211 exercisable at 5 cents on or before 31 March 2012, 371,211 exercisable at 7 cents on or before 31 March 2013 and 371,211 exercisable at 10 cents on or before 31 March 2014.
4. 2,256,248 exercisable at 5 cents on or before 31 March 2012, 2,256,248 exercisable at 7 cents on or before 31 March 2013 and 2,256,249 exercisable at 10 cents on or before 31 March 2014.
5. 631,250 exercisable at 5 cents on or before 31 March 2012, 631,250 exercisable at 7 cents on or before 31 March 2013 and 631,250 exercisable at 10 cents on or before 31 March 2014.
6. Exercisable at 10 cents on or before 31 October 2012.

Share Options

Details of unissued ordinary shares under option are as follows:

	Number of options	Exercise price	Expiry date
Unlisted options	39,730,712	5 cents	31 March 2012
Unlisted options	40,286,512	7 cents	31 March 2013
Unlisted options	40,711,361	10 cents	31 March 2014
Listed options	52,986,280	10 cents	31 October 2012

1,615,667 (2010: Nil) ordinary shares were issued during the financial year as a result of the exercise of options.
6,000,000 unlisted options expired on 30 June 2011. A further 750,000 unlisted options expired on 7 August 2011.

Dividends

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

Principal Activities

The principal activities of the entities within the consolidated entity during the year were the development and production of and exploration for oil and gas in the United States of America. There have been no significant changes in the nature of those activities during the year other than those described below.

Review of operations

During the year, the Company continued to develop and explore its oil and gas prospects in Texas and Louisiana.

The Snapper A-1, A-2 and A-3 wells in St Martin Parish, the Pine Pasture #1 and #2 wells in the East Chalkley field continued to produce. The Merta #1 well at the Highway 71 prospect commenced sustained production. The Weldon No.1 well was fracced and monitoring of the results is ongoing.

Operating results for the year

Net loss attributable to equity holders of the parent for the year ended 30 June 2011 was $3,493,799 (2010: $1,840,807). Basic loss per share was 1.9 cents (2010: 1.3 cents)

Significant changes in the state of affairs

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

Significant events after balance date

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

Likely developments and expected results

The consolidated entity will continue to explore, develop and produce from its projects in Texas and Louisiana. Disclosure of any further information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Therefore, this information has not been presented in this report.

Environmental legislation

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

Indemnification and insurance of Directors and Officers

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

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

The total amount of premium paid was $23,486.

Remuneration report (audited)

The Remuneration Report is set out under the following main headings:
A. Principles used to determine the nature and amount of remuneration
B. Details of remuneration
C. Service agreements
D. Share-based compensation

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

This report outlines the remuneration arrangements in place for directors and executives of Target.

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

Remuneration philosophy

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

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

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

Remuneration consists of fixed remuneration and variable remuneration.

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

Variable Remuneration
Each of the directors holds a significant number of shares and options. The board does not consider it necessary at the present time to take additional steps to link the remuneration of Directors with the creation of shareholder wealth. Given the current structure, there exists a direct link between the creation of shareholder wealth performance and the financial rewards for the directors.

Remuneration Reviews
The Board of Directors of the Parent is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and all other key management personnel. The Board of Directors assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

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

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

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

Each director receives a fee for being a director of the company. The compensation of non-executive directors for the period ending 30 June 2011 is detailed below.

Senior manager and executive director remuneration
Objective
The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

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

Compensation consists of the following key elements:

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

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

Fixed Compensation

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

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

Variable Pay – Long Term Incentive (LTI)

Objective

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

Structure

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

B. Details of remuneration for the year ended 30 June 2011

		Primary benefits		Post employment	Equity		%
Directors		Salary & Fees	Non Monetary Benefits	Superannuation	Options	Total	Performance related
C Rowe	2011	62,500	-	-	-	62,500	-
	2010	27,500	-	-	-	27,500	-
L Roe	2011	298,165	-	26,835	-	325,000	-
	2010	298,165	-	26,835	-	325,000	-
G Riley	2011	30,000	-	-	-	30,000	-
	2010	-	-	-	-	-	-
S Mann	2011	15,157	-	1,364	-	16,521	-
	2010	-	-	-	-	-	-
M Martin	2011	36,000	-	3,240	-	39,240	-
	2010	36,000	-	3,240	-	39,240	-
P Lloyd	2011	25,000	-	2,250	-	27,250	-
	2010	50,000	-	4,500	-	54,500	-
D Murcia	2011	-	-	-	-	-	-
	2010	27,500	-	-	-	27,500	-
G McGann	2011	-	-	-	-	-	-
	2010	-	-	17,791	-	17,791	-
Total Directors	2011	466,822	-	33,689	-	500,511	
	2010	439,165	-	52,366	-	491,531	
Specified Executives							
R Caren	2011	87,650	-	-	-	87,650	-
	2010	73,469	-	-	-	73,469	-
Total Specified Executive	2011	87,650	-	-	-	87,650	
	2010	73,469	-	-	-	73,469	

C. Service agreements

Employment Contract

The Managing Director, Mr Laurence Roe is employed under contract. The current employment contract commenced on 1 April 2010 and terminates on 31 March 2012, at which time the Company may choose to commence negotiations to enter into a new employment contract with Mr Roe.

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

- Remuneration of $325,000 pa inclusive of superannuation.
- Either party is entitled to terminate the agreement by six months notice.
- On termination, other than for cause, the Company will be obliged to make a payment equivalent to six months' salary.

D. Share-based compensation

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

Directors' Meetings

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

Directors during the year ended 30 June 2011	Full meetings of directors	
	A	B
C Rowe	7	7
L Roe	7	7
G Riley	3	3
S Mann	1	1
M Martin	6	5
P Lloyd	4	2

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

B Number of meetings attended in person or by conference call

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 located on page 27 of this report and forms part of this directors' report for the year ended 30 June 2011.

Non-Audit Services

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

Signed in accordance with a resolution of the directors.

Laurence Roe
Managing Director

Perth, 9 September 2011

Auditor's Independence Declaration

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Target Energy Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Target Energy Limited.

Perth, Western Australia
9 September 2011

L DI GIALLONARDO
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au
Liability limited by a scheme approved under Professional Standards Legislation

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated 2011 $	2010 $
Continuing operations			
Revenue	2(a)	1,153,107	1,235,703
Other income	2(a)	-	3,638
		1,153,107	1,239,341
Oil and gas production expenses and taxes		(498,538)	(460,213)
Accounting expense		(19,405)	(69,663)
Audit fees		(30,860)	(34,505)
Consultants		(163,408)	(209,236)
Interest expense		(49,997)	-
Takeover expense		-	(15,935)
Amortisation and impairment of oil & gas properties	9	(1,488,272)	(1,223,415)
Depreciation expense	2(b)	(10,520)	(6,978)
Directors' fees		(175,511)	(167,000)
Employee benefits expense		(365,635)	(367,340)
Amortisation and impairment of exploration and development expenditure	10	(1,254,595)	(12,201)
Foreign exchange loss	2(b)	(43,970)	(32,361)
Insurance		(30,604)	(26,437)
Legal expenses		(65,518)	(75,948)
Listing fees		(15,354)	(20,684)
Office expense		(125,646)	(85,920)
Other expenses		(67,814)	(82,113)
Promotions and advertising		(29,708)	(41,395)
Share registry expense		(24,092)	(24,053)
Travel and accommodation		(187,459)	(124,751)
Impairment of current assets		-	-
Loss from continuing operations before income tax expense		(3,493,799)	(1,840,807)
Income tax expense	3(a)	-	-
Loss from continuing operations after income tax expense		(3,493,799)	(1,840,807)
Other comprehensive income			
Exchange differences on translation of foreign operations		(1,667,309)	(172,717)
Total comprehensive loss		(5,161,108)	(2,013,524)
Basic loss per share (cents per share)	5	(1.9)	(1.3)

The accompanying notes form part of these financial statements

Statement of Financial Position

AS AT 30 JUNE 2011

	Note	Consolidated 2011 $	2010 $
CURRENT ASSETS			
Cash and cash equivalents	6	1,820,704	1,164,162
Trade and other receivables	7	249,099	170,170
Other financial assets	8	50,000	50,000
Total Current Assets		2,119,803	1,384,332
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,486,090	5,630,856
Deferred exploration, evaluation and development expenditure	10	2,376,387	1,790,695
Total Non-Current Assets		5,862,477	7,421,551
TOTAL ASSETS		7,982,280	8,805,883
CURRENT LIABILITIES			
Trade and other payables	12	207,121	130,198
Total Current Liabilities		207,121	130,198
NON CURRENT LIABILITIES			
Convertible notes	12	650,000	-
Total Non Current Liabilities		650,000	-
TOTAL LIABILITIES		857,121	130,198
NET ASSETS		7,125,159	8,675,685
EQUITY			
Issued capital	13	21,122,156	17,511,574
Reserves	14	(1,265,621)	401,688
Accumulated losses		(12,731,376)	(9,237,577)
TOTAL EQUITY		7,125,159	8,675,685

The accompanying notes form part of these financial statements

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated 2011 $	2010 $
		Inflows/(Outflows)	
Cash Flows from Operating Activities			
Receipts from customers		1,114,894	1,260,995
Payments to suppliers and employees		(1,836,069)	(1,869,438)
Interest received/(paid)		(29,161)	37,697
Net cash used in operating activities	6(ii)	(750,336)	(570,746)
Cash Flows from Investing Activities			
Exploration and development expenditure		(2,809,735)	(3,478,187)
Net cash used in investing activities		(2,809,735)	(3,478,187)
Cash Flows from Financing Activities			
Proceeds from borrowings		650,000	-
Proceeds from issue of shares		3,763,989	2,914,246
Share issue expenses		(153,407)	(268,430)
Net cash provided by financing activities		4,260,582	2,645,816
Net (decrease)/increase in cash held		700,511	(1,403,117)
Cash at the beginning of the financial year		1,164,162	2,599,641
Effect of exchange rate changes on the balance of cash held in foreign currencies		(43,969)	(32,361)
Cash at the end of the financial year	6	1,820,704	1,164,162

The accompanying notes form part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2011

Consolidated Group	Issued Capital	Accumulated Losses	Option Reserve	Share-Based Payments Reserve	Foreign Currency Translation Reserve	Total
	$	$	$	$	$	$
Balance at 1 July 2009	14,865,758	(7,396,770)	340,000	216,315	18,090	8,043,393
Shares issued during the year	2,914,246	-	-	-	-	2,914,246
Share issue costs	(268,430)	-	-	-	-	(268,430)
Loss attributable to members of the parent entity	-	(1,840,807)	-	-	-	(1,840,807)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(172,717)	(172,717)
Balance at 30 June 2010	17,511,574	(9,237,577)	340,000	216,315	(154,627)	8,675,685
Balance at 1 July 2010	17,511,574	(9,237,577)	340,000	216,315	(154,627)	8,675,685
Shares issued during the year	3,763,989	-	-	-	-	3,763,989
Share issue costs	(153,407)	-	-	-	-	(153,407)
Loss attributable to members of the parent entity	-	(3,493,799)	-	-	-	(3,493,799)
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	-	(1,667,309)	(1,667,309)
Balance at 30 June 2011	21,122,156	(12,731,376)	340,000	216,315	(1,821,936)	7,125,159

The accompanying notes form part of these financial statements

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

The financial report is presented in Australian dollars.

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

(b) Adoption of new and revised standards

In the year ended 30 June 2011, the consolidated entity has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the consolidated entity 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 consolidated entity accounting policies.

The consolidated entity has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to consolidated entity accounting policies.

(c) Statement of Compliance

The financial report was authorised for issue on 9 September 2011.

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 2011 (the consolidated entity).The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-consolidated entity transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity and cease to be consolidated from the date on which control is transferred out of the consolidated entity. 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.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the consolidated entity and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position.

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the consolidated entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Treatment of exploration and development expenditures

The consolidated entity is currently capitalising exploration and development expenditures on various tenements until such time as production is commenced or the area of interest is deemed unlikely to yield benefits either through successful exploitation or sale, at which stage the costs will be recognised in profit and loss.

Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the consolidated entity's properties. In order to calculate reserves, estimates and assumptions are required about a large range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operation, estimates of reserves may change from period to period. Changes in reported reserves may affect the consolidated entity's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charged in the statement of comprehensive income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change; and
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

Share-based payment transactions

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

(f) Revenue Recognition

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

Interest income

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

Oil & Gas Production Revenue

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

(g) Cash and cash equivalents

Cash comprises cash at bank and on 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 statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(h) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 30 to 90 days.

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

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

(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 consolidated entity 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 consolidated entity 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 consolidated entity 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 consolidated entity'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 consolidated entity 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 consolidated entity's continuing involvement is the amount of the transferred asset that the consolidated entity 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 consolidated entity'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 consolidated entity assesses at each balance 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 consolidated entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

(ii) Financial assets carried at cost

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

(k) Foreign currency translation

Both the functional and presentation currency of Target Energy Limited is Australian dollars. Each entity in the consolidated entity 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 date.

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

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

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

The functional currency of the foreign operations, TELA Garwood Limited LP and TELA Louisiana Limited Inc, is United States dollars (US$). As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Target Energy Limited at the rate of exchange ruling at the balance date and their statements of comprehensive income are translated at the average exchange rate for the year.

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

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

(l) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 date.

Deferred income tax is provided on all temporary differences at the balance 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 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 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 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 statement of financial position.

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

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

(n) Property, plant and equipment

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

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

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Office Equipment – over 5 to 8 years
Oil and Gas Properties – over the life of proved plus probable reserves (UOP)
Motor Vehicles – over 4 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 property, 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 property, 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 property, plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(o) Financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The consolidated entity 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 consolidated entity commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

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

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

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the consolidated entity 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 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 consolidated entity 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 consolidated entity 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 consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity 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 consolidated entity 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 consolidated entity expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

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

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

(u) Employee leave benefits

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

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

(ii) Long service leave

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

(v) Share-based payment transactions

(i) Equity settled transactions:

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using an option pricing model. 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 consolidated entity'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 statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

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

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

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

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

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

(w) Issued capital

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

(x) Earnings/(loss) per share

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

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

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(y) Exploration, evaluation and development expenditure

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

(i) the rights to tenure of the area of interest are current; and
(ii) at least one of the following conditions is also met:

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

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

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

(z) Comparative Figures

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

NOTE 2: REVENUE AND EXPENSES

	Consolidated	
	2011	2010
	$	$
(a) Revenue		
Oil and Gas income	1,131,985	1,197,914
Interest received - other	21,122	37,789
Total revenue	1,153,107	1,235,703
Net foreign exchange gain	-	-
Other income	-	3,638
Total other income	-	3,638
	1,153,107	1,239,341
(b) Expenses		
The loss from continuing operations before income tax has been determined after:		
Depreciation of non-current assets	10,520	6,978
Net foreign exchange losses	43,970	32,361
Contribution to employee superannuation plans	32,235	41,033

NOTE 3: INCOME TAX

(a) Income tax recognised in profit/loss

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

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

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

	Consolidated	
	2011	2010
	$	$
Accounting loss before tax	(3,493,799)	(1,840,807)
Income tax benefit/(expense) at 30%	1,048,140	552,242
Non-deductible expenses:		
Foreign tax rate adjustment	196,732	201,269
Foreign exchange gain / (loss)	891,093	161,040
Option issue expense	-	-
Impairment of loan to controlled entity	-	-
Other non deductible expenses	(1,507)	(5,776)
Unrecognised tax losses	(2,134,458)	(908,775)
Income tax benefit attributable to loss from ordinary activities before tax	-	-

(c) Unrecognised deferred tax balances

	2011	2010
Tax losses attributable to members of the tax consolidated group - revenue	23,415,478	22,366,368
Potential tax benefit at 30%	7,024,643	6,709,910
Deferred tax liability not booked		
Deferred exploration expenditure and oil & gas properties	(1,737,058)	(2,222,271)
Deferred tax asset not booked		
Amounts recognised in profit & loss		
-employee provisions	10,261	7,880
-other	39,126	21,585
Amounts recognised in equity		
- share issue costs	127,016	193,796
Net unrecognised deferred tax asset at 30%	5,463,988	4,710,900

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

NOTE 4: SEGMENT REPORTING

Statement of Operations by Segment

The consolidated entity has adopted AASB 8 Operating Segments which requires operating segments to be identified on the basis of internal reports about components of the Company that are reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance. The chief operating decision maker reviews internal reports prepared as financial statements and strategic decisions of the consolidated entity are determined upon analysis of these internal reports. During the period, the consolidated entity operated predominantly in the business and geographical segment being the oil and gas exploration and production sector in the United States of America. Accordingly, under the 'management approach' outlined only one operating segment has been identified and no further disclosure is required in the notes to the financial statements.

NOTE 5: EARNINGS/(LOSS) PER SHARE

	2011	2010
	Cents	Cents
Basic loss per share (cents per share)	(1.9)	(1.3)
The loss and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		
Loss for the year	(3,493,799)	(1,840,807)
Weighted average number of shares outstanding during the year used in calculations of basic loss per share	187,677,302	140,186,187

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	
	2011	2010
	$	$
Cash at bank	1,820,404	1,163,862
Cash on hand	300	300
	1,820,704	1,164,162

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

NOTE 6: CASH AND CASH EQUIVALENTS (Continued)

	Consolidated	
	2011	2010
	$	$
(i) Reconciliation to the Statement of Cash Flows		
For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank.		
Cash and cash equivalents as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:		
Cash and cash equivalents	1,820,704	1,164,162
(ii) Reconciliation of loss after income tax to net cash flows from operating activities:		
Loss after income tax	(3,493,799)	(1,840,807)
Depreciation	10,520	6,978
Amortisation and impairment	2,742,867	1,235,616
Net foreign exchange (gain)/loss	43,970	32,361
	(696,442)	(565,852)
Changes in operating assets and liabilities, net of the effects of purchase of subsidiaries:		
(Increase)/decrease in trade and other receivables	(79,549)	87,715
(Decrease)/Increase in trade and other payables	17,720	(104,975)
(Decrease)/Increase in employee benefits	7,935	12,366
Net cash outflow from operating activities	(750,336)	(570,746)

NOTE 7: TRADE AND OTHER RECEIVABLES

	Consolidated	
	2011	2010
	$	$
Current		
Trade receivables	227,709	153,673
Prepayments	6,854	12,043
GST recoverable	13,917	-
Other receivables	248,071	314,183
Impairment of other receivables	(247,452)	(309,730)
	249,099	170,170

The average credit period on sales of goods and rendering of services is 30-90 days.

No interest is charged.

NOTE 8: OTHER FINANCIAL ASSETS

	Consolidated	
	2011	2010
	$	$
Current		
Term deposit	50,000	50,000
	50,000	50,000

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

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Consolidated				
	Office Equipment	Computer Equipment	Motor Vehicles	Oil & Gas Properties	Total
	$	$	$	$	$
Year ended 30 June 2011					
At 1 July 2010, net of accumulated depreciation	13,983	-	-	5,616,873	5,630,856
Effect of movements in foreign exchange	-	-	-	(1,078,053)	(1,078,053)
Additions	-	23,871	44,953	363,255	432,079
Transferred from exploration & evaluation expenditure	-	-	-	-	-
Transferred from development expenditure	-	-	-	-	-
Depreciation/amortisation/impairment for the year	(4,652)	(4,051)	(1,817)	(1,488,272)	(1,498,792)
At 30 June 2011, net of accumulated depreciation	9,331	19,820	43,136	3,413,803	3,486,090
At 1 July 2010					
Cost	36,843	48,248	-	7,501,617	7,586,708
Accumulated depreciation	(22,860)	(48,248)	-	(1,884,744)	(1,955,852)
Net carrying amount	13,983	-	-	5,616,873	5,630,856
At 30 June 2011					
Cost	36,843	72,119	44,953	6,786,819	6,940,734
Accumulated depreciation/amortisation	(27,512)	(52,299)	(1,817)	(3,373,016)	(3,454,644)
Net carrying amount	9,331	19,820	43,136	3,413,803	3,486,090

The useful life of the assets was estimated as follows for 2011:

Office Equipment	5 to 8 years
Computer Equipment	2.5 years
Motor Vehicles	4 years
Oil & Gas Properties	Units of production

NOTE 10: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Consolidated	
	2011	2010
	$	$
Costs carried forward in respect of:		
Exploration and evaluation phases - at cost		
Balance 1 July	-	1,072,088
Effects of movements in foreign exchange	-	(61,109)
Expenditure incurred	2,140,383	2,475,022
	2,140,383	3,486,001
Expenditure written off	(490,441)	-
Transferred to Oil & Gas Properties	-	(1,683,105)
Transferred to development phase	-	(1,802,896)
Balance at 30 June	1,649,942	-
Development phase - at cost		
Balance 1 July	1,790,695	-
Effects of movements in foreign exchange	(343,691)	-
Expenditure incurred	43,595	-
	1,490,599	-
Transferred from exploration and evaluation phase	-	1,802,896
Amortisation/impairment for the year	(764,154)	(12,201)
Transferred to Oil & Gas Properties	-	-
Balance at 30 June	726,445	1,790,695
Total deferred exploration and development expenditure	2,376,387	1,790,695

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

NOTE 11: SHARE BASED PAYMENT PLANS

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

	2011 No.	2011 Weighted average exercise price	2010 No.	2010 Weighted average exercise price
Outstanding at the beginning of the period	6,750,000	19.1 cents	9,550,000	20.8 cents
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	(6,000,000)	20 cents	(2,800,000)	25 cents
Outstanding at the end of the period	750,000	12 cents	6,750,000	19.1 cents
Exercisable at the end of the period	750,000	12 cents	6,750,000	19.1 cents

The outstanding balance as at 30 June 2011 is represented by:

- 750,000 unlisted options over ordinary shares with an exercise price of 12 cents each, exercisable on or before 7 August 2011.

The fair value of options granted during the period was $Nil (2010: $Nil).

NOTE 12: TRADE AND OTHER PAYABLES

	Consolidated 2011 $	Consolidated 2010 $
Current		
Trade payables	42,497	31,361
Employee entitlements	34,203	26,268
Accruals	130,421	71,950
GST payable	-	619
	207,121	130,198

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

	Consolidated 2011 $	Consolidated 2010 $
Non Current		
Convertible notes	650,000	-
	650,000	-

The terms of the convertible notes are as follows:

Term:	2 years
Due Date:	$550,000 - 9 November 2012, $100,000 – 19 November 2012
Coupon Rate:	12% pa
Interest paid:	Quarterly in Arrears
Note Face Value:	A$1.00
Conversion Ratio:	Each Note converts to 20 fully paid ordinary shares in the Company at the Note holders' election
Conversion Price:	A$0.05 per shares

NOTE 13: ISSUED CAPITAL

	Consolidated	
	2011	2010
	$	$
281,107,296 (2010: 157,307,450) fully paid ordinary shares	21,122,156	17,511,574

(i) Ordinary shares - number	No.	No.
At start of period	157,307,450	104,321,170
Shares issued on conversion of options at $0.10	176,994	-
Shares issued on conversion of options at $0.07	441,541	-
Shares issued on conversion of options at $0.05	997,132	-
Shares issued - 16,833,333 on 13 December 2010 at $0.03	16,833,333	-
Shares issued - 6,666,666 on 23 March 2011 at $0.03	6,666,666	-
Shares issued - 67,500,000 on 8 April 2011 at $0.03	67,500,000	-
Rights Issue - 31,184,180 on 12 May 2011 at $0.03	31,184,180	-
Shares issued - 7,400,000 on 18 September 2009 at $0.055	-	7,400,000
Rights Issue - 44,688,468 on 29 October 2009 at $0.055	-	44,688,468
Shares issued - 897,812 on 9 November 2009 at $0.055	-	897,812
Balance at end of period	281,107,296	157,307,450

(ii) Ordinary shares - value	$	$
At start of period	17,511,574	14,865,758
Shares issued on conversion of options at $0.10	17,699	-
Shares issued on conversion of options at $0.07	30,908	-
Shares issued on conversion of options at $0.05	49,857	-
Shares issued - 16,833,333 on 13 December 2010 at $0.03	505,000	-
Shares issued - 6,666,666 on 23 March 2011 at $0.03	200,000	-
Shares issued - 67,500,000 on 8 April 2011 at $0.03	2,025,000	-
Rights Issue - 31,184,180 on 12 May 2011 at $0.03	935,525	-
Shares issued - 7,400,000 on 18 September 2009 at $0.055	-	407,000
Rights Issue - 44,688,468 on 29 October 2009 at $0.055	-	2,457,866
Shares issued - 897,812 on 9 November 2009 at $0.055	-	49,380
Less share issue costs	(153,407)	(268,430)
Balance at end of period	21,122,156	17,511,574

NOTE 14: RESERVES

	Consolidated 2011 $	Consolidated 2010 $
Reserves	(1,265,621)	401,688

Reserves comprise the following:

(i) **Option Premium Reserve**

Number of Options - options issued other than as share based payments	**No.**	**No.**
At start of period	52,986,280	60,012,164
Options issued - 23,499,999 on 23 March 2011	23,499,999	-
Options issued - 67,500,000 on 8 April 2011	67,500,000	-
Options issued - 31,184,180 on 12 May 2011	31,184,180	-
Conversion of Options	(1,615,667)	-
Options issued - 7,400,000 on 21 September 2009	-	7,400,000
Options Issued - 44,688,468 on 29 October 2009	-	44,688,468
Options Issued - 897,812 on 6 November 2009	-	897,812
Expiry of Options - 60,012,164 on 26 November 2009	-	(60,012,164)
Balance at 30 June	173,554,792	52,986,280

Value of Options	**$**	**$**
At start of period	340,000	340,000
Balance at 30 June	340,000	340,000

(ii) **Share-Based Payments Reserve**

Number of options - options issued as share based payments	**No.**	No.
At start of period	6,750,000	9,550,000
Expiry of Options - 6,000,000 on 30 June 2011	(6,000,000)	-
Expiry of Options - 2,800,000 on 26 November 2009	-	(2,800,000)
Balance at 30 June	750,000	6,750,000

Value of options	**$**	**$**
At start of period	216,315	216,315
Balance at 30 June	216,315	216,315

(iii) **Foreign Currency Translation Reserve**

At start of period	(154,627)	18,090
Currency translation differences	(1,667,309)	(172,717)
Balance at 30 June	(1,821,936)	(154,627)

NOTE 14: RESERVES (Continued)

Nature and purpose of reserves

Share Based Payments Reserve

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

Option Premium Reserve

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

Foreign Currency Translation Reserve

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

NOTE 15: FINANCIAL INSTRUMENTS

30 June 2011	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing Within Year	1 to 5 Yrs	Over 5 Yrs	Non-interest bearing	Total
		$	$	$	$	$	$
Financial Assets:							
Cash & cash equivalents	1.4%	1,820,704	-	-	-	-	1,820,704
Trade and other receivables		-	-	-	-	249,099	249,099
Other financial assets (current)	5.6%	-	50,000	-	-	-	50,000
Total Financial Assets		1,820,704	50,000	-	-	249,099	2,119,803
Financial Liabilities:							
Trade and other payables		-	-	-	-	207,121	207,121
Convertible Notes	12.0%	-	-	650,000	-	-	650,000
Total financial liabilities		-	-	650,000	-	207,121	857,121

30 June 2010	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing Within Year	1 to 5 Years	Over 5 Years	Non-interest bearing	Total
		$	$	$	$	$	$
Financial Assets:							
Cash & cash equivalents	2.4%	1,164,162	-	-	-	-	1,164,162
Trade and other receivables		-	-	-	-	170,170	170,170
Other financial assets (current)	4.0%	-	50,000	-	-	-	50,000
Total Financial Assets		1,164,162	50,000	-	-	170,170	1,384,332
Financial Liabilities:							
Trade and other payables		-	-	-	-	130,198	130,198
Total financial liabilities		-	-	-	-	130,198	130,198

NOTE 16: EXPENDITURE COMMITMENTS

	Consolidated 2011 $	2010 $
(i) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months	83,746	159,516
- between 12 months and 5 years	-	83,746
- greater than 5 years	-	-
	83,746	243,262

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

	2011 $	2010 $
(ii) Expenditure commitments contracted for:		
Exploration Tenements		
In order to maintain current rights of tenure to exploration tenements, the Company is required to outlay rentals and to meet the minimum expenditure requirements. These obligations are not provided for in the financial statements and are payable:		
- not later than 12 months	1,477,777	916,724
- between 12 months and 5 years	-	-
- greater than 5 years	-	-
	1,477,777	916,724

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 2011	% Equity Interest 2010	Investment $ 2011	Investment $ 2010
Target Energy Limited	Australia	100	100	-	-
TELA (USA) Inc	USA	100	100	-	-
TELA Louisiana Limited Inc	USA	100	100	-	-
TELA Texas Holdings Limited Inc	USA	100	100	-	-
its subsidiaries:					
TELA Texas General LLC	USA	100	100	-	-
TELA Texas Limited LLC	USA	100	100	-	-
its subsidiary					
TELA Garwood Limited LP1	USA	99	99	-	-

Note 1 - 1% owned by Tela Texas General LLC

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

NOTE 17: RELATED PARTY DISCLOSURE (Continued)

	2011	2010
Amounts owed by Related Parties	$	$
Subsidiaries		
TELA Louisiana Limited Inc	11,053,372	12,367,742
TELA Garwood Limited LP	4,048,665	2,731,287
Total	15,102,037	15,099,029
Provision for impairment	(8,803,708)	(6,842,417)
	6,298,329	8,256,612
Amounts payable to Directors for Directors' Fees	35,833	4,583

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

For the year ended 30 June 2011, the consolidated entity has made provision for the impairment of the loan to TELA Garwood Limited LP amounting to $1,141,612 (2010:$ 105,570) and TELA Louisiana Limited Inc amounting to $819,679 (2010: $1,082,605).

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 consolidated entity recognises an allowance for the impairment loss.

Loans to controlled entities bear interest at the rate of between 3% and 4.5% (2010: 4.0% to 4.5%). Interest received from controlled entities during the year was $968,006 (2010: $990,651).

NOTE 18: EVENTS AFTER THE REPORTING DATE

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

NOTE 19: AUDITORS' REMUNERATION

	Consolidated	
	2011	2010
	$	$
Amounts received or due and receivable by the auditors for:		
Audit or review of the financial reports of the Company	30,860	34,505

NOTE 20: DIRECTORS AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Christopher Rowe	Chairman (non-executive) - appointed 1 January 2010
Laurence Roe	Managing Director
Graham Riley	Director (non-executive) – appointed 1 January 2011
Stephen Mann	Director (non-executive) – appointed 23 March 2011
Michael Martin	Director (non-executive) – resigned 23 March 2011
Paul Lloyd	Director (non-executive) - resigned 31 December 2010

(ii) Executives

Rowan Caren	Company Secretary

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

(b) Compensation by category of Key Management Personnel for the year ended 30 June 2011

	Consolidated	
	2011	2010
	$	$
Short-term employee benefits	554,472	512,634
Post-employment benefits	33,689	52,366
Share-based payments	-	-
	588,161	565,000

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

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

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

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

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

	Balance at the start of the year	Acquired through rights issue	Options Expired	Net change other	Balance at the end of the period	Vested and exercisable at 30 June 2011
Directors						
Christopher Rowe	-	639,504	-	4,400,000	5,039,504	5,039,504
Laurence Roe	2,000,000	446,967	(2,000,000)	666,666	1,113,633	1,113,633
Graham Riley	-	752,083	-	6,016,662	6,768,745	6,768,745
Stephen Mann	-	393,750	-	1,500,000	1,893,750	1,893,750
Michael Martin	2,000,000	516,058	(2,000,000)	-	516,058	516,058
Paul Lloyd	2,000,000	125,000	(2,000,000)	-	125,000	125,000
	6,000,000	2,873,362	(6,000,000)	12,583,328	15,456,690	15,456,690
Specified Executives						
Rowan Caren	-	-	-	750,000	750,000	750,000
	-	-	-	750,000	750,000	750,000

NOTE 20: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)

(f) Option holdings of Key Management Personnel - Listed expiring 31 October 2012

	Balance at the start of the year	Granted as remuneration	Options Expired	Net change other	Balance at the end of the period
Directors					
Christopher Rowe	-	-	-	500,000	500,000
Laurence Roe	352,727	-	-	-	352,727
Graham Riley	-	-	-	-	-
Stephen Mann	-	-	-	1,500,000	1,500,000
Michael Martin	90,000	-	-	-	90,000
Paul Lloyd	-	-	-	-	-
	442,727	-	-	2,000,000	2,442,727
Specified Executives					
Rowan Caren	168,000	-	-	-	168,000
	168,000	-	-	-	168,000

(g) Shareholdings of Key Management Personnel (Consolidated)

	Balance at the start of the period	Acquired through rights issue	On exercise of options	Net change other	Balance at the end of the period
Directors					
Christopher Rowe	237,700	639,504	-	5,150,380	6,027,584
Laurence Roe	5,575,727	446,967	-	666,666	6,689,360
Graham Riley	-	752,083	-	6,288,712	7,040,795
Stephen Mann	-	393,750	-	3,150,000	3,543,750
Michael Martin	4,128,461	516,058	-	-	4,644,519
Paul Lloyd	1,112,566	125,000	-	(112,566)	1,125,000
	11,054,454	2,748,362	-	15,255,758	27,946,008
Specified Executives					
Rowan Caren	-	83,334	-	666,666	750,000
	-	83,334	-	666,666	750,000

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

(h) Loans to Key Management Personnel (Consolidated)

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

(i) Other transactions and balances with Key Management Personnel

No other transactions with key management personnel have occurred during the year.

NOTE 21: Financial risk management

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

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

The Consolidated entity holds the following financial instruments:

	2011	2010
	$	$
Financial assets		
Cash and cash equivalents	1,820,704	1,164,162
Trade and other receivables	249,099	170,170
Other financial assets	50,000	50,000
	2,119,803	1,384,332
Financial liabilities		
Trade and other payables	207,121	130,198
Convertible Notes	650,000	-
	857,121	130,198

(a) Market risk

Cash flow and fair value interest rate risk

The Consolidated entity's main interest rate risk arises from cash deposits to be applied to exploration and development of areas of interest. Deposits at variable rates expose the consolidated entity to cash flow interest rate risk. Deposits at fixed rates expose the consolidated entity to fair value interest rate risk. During 2011 and 2010, the consolidated entity's deposits at variable rates were denominated in Australian Dollars and United States Dollars.

As at the reporting date, the consolidated entity had the following variable rate deposits (including the term deposit included in Note 8) and there were no interest rate swap contracts outstanding:

	2011		2010	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$	%	$
Deposit		1,870,404		1,213,862
Other cash available		300		300
Net exposure to cash flow interest rate risk	1.4%	1,870,704	2.4%	1,214,162

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

Sensitivity

During 2010/2011, if interest rates had been 50 basis points higher or lower than the prevailing rates realised, with all other variables held constant, there would be an immaterial change in post-tax loss for the year.

NOTE 21: Financial risk management (continued)

Foreign currency risk

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

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

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

The consolidated entity does not have a policy to enter into forward contracts and does not negotiate hedge derivatives to exactly match the terms of the hedged item. At 30 June 2011, the consolidated entity had the following exposure to US$ foreign currency expressed in A$ equivalents, that are not designated as cash flow hedges:

	2011	2010
	$	$
Financial assets		
Cash and cash equivalents	1,302,721	748,921
Trade and other receivables	217,083	-
	1,519,804	748,921
Financial liabilities		
Trade and other payables	55,938	34,688

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

At 30 June 2011, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Loss Higher/(Lower)	
	2011	2010
	$	$
Consolidated Group		
AUD/USD +20%	(243,978)	(124,820)
AUD/USD - 20%	365,966	187,230

(b) Credit risk

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

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

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

(c) Liquidity risk

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

The Consolidated and parent entity have no borrowing facilities.

(d) Capital Risk Management

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

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

NOTE 22: PARENT ENTITY DISCLOSURES

	2011	2010
(a) Financial Position	**$**	**$**
Assets		
Current assets	7,779,919	8,751,579
Non-current assets	29,151	13,983
Total assets	7,809,070	8,765,562
Liabilities		
Current liabilities	151,183	95,510
Non Current Liabilities	650,000	-
Total liabilities	801,183	95,510
Equity		
Issued capital	21,122,156	17,511,574
Reserves	556,315	556,315
Accumulated losses	(14,670,584)	(9,397,838)
Total Equity	7,007,887	8,670,051
(b) Financial Performance		
Loss for the year	(5,272,748)	(2,019,157)
Other comprehensive income	-	-
Total comprehensive loss	(5,272,748)	(2,019,157)

(c) Contingent liabilities of the parent entity

Nil

(d) Commitments for the acquisition of property, plant and equipment by the parent entity

Nil

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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year then ended; and

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

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

   c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the year ended 30 June 2011.

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

Laurence Roe
Director

9 September 2011

HLB Mann Judd
Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Target Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Target Energy Limited ("the company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report 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. Those 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 control relevant to the company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Target Energy Limited for the financial year ended 30 June 2011 included on Target Energy Limited's website. The company's directors are responsible for the integrity of the Target Energy Limited website. We have

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not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report identified in this report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

Independence

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

Auditor's Opinion

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Target Energy Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Giallonardo

L DI GIALLONARDO
Partner

Perth, Western Australia
9 September 2011

Corporate Governance

This statement outlines the main corporate governance practices in place throughout the year ended 30 June 2011, which comply with the ASX Corporate Governance Council "Corporate Governance Council Principles and Recommendations 2nd Edition with 2010 Amendments" (issued in June 2010), unless otherwise stated.

Board of directors

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

Name	Office	Date of Appointment	Period of Tenure (months)	Date of most recent re-election by members
Mr Christopher Rowe	Chairman	1 January 2010	21	19 November 2010
Mr Laurence Roe	Managing Director	6 April 2006	65	Not applicable
Mr Graham Riley	Director	1 January 2011	8	23 March 2011
Mr Stephen Mann	Director	23 March 2011	6	Not applicable

Role of the board

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

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

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

Board Processes

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

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

Independent Professional Advice and Access to Company Information

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

Composition of the Board

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

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

Board members have experience in the management of public companies. The board considers Messrs Rowe (the Chairman) and Riley to be independent directors. Mr Martin was considered to be an independent director whilst he was on the Board. Mr Lloyd was an executive of the Company until mid 2008 but subsequently operated as a non-executive, until the date of his resignation.

Mr Roe (the Managing Director) is not considered to be an independent director as he is the Managing Director. Mr Mann is not considered to be an independent director as he is a director of Investmet Limited, the Company's largest shareholder.

On this basis, the board currently has the same number of independent directors as non-independent directors, however the Chairman, who is independent, has the casting vote. Therefore the board complies with the recommendations of ASX Corporate Governance Council.

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

Process for Evaluating the Performance of Executives

The process for the evaluation of the performance of executive(s), including the Managing Director is for the Chairman and the executive to meet informally each year to discuss the Chairman's evaluation of the executive's performance.

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

Process for Evaluating the Performance of Directors

The process for the evaluation of the performance of director(s), excluding the Managing Director is for the Chairman to meet informally with each director each year to discuss the Chairman's evaluation of the director's performance.

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

Nomination Committee

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

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

The remuneration structures explained below are designed to attract suitably qualified candidates, and to affect the broader outcome of maximising the Company's profitability. The remuneration structures take into account:

- Overall level of remuneration for each director and executive;
- The executive's ability to control the performance of the relevant area; and
- The amount of incentives within each executive's remuneration.

Shares and options can only be issued to Company Directors under a resolution at a general meeting of shareholders, other than shares issued upon the conversion of options.

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

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

Audit committee

The consolidated entity is not currently considered to be of a size, nor 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, ASX and financial institutions.
- Reviewing the nomination and performance of the external auditor. The external audit engagement partner will be rotated every five years;
- Assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements.

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

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

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

Risk Management

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

The Board monitor the management of risks on an ongoing basis and requires management to design and implement a risk management and internal control system to manage the entity's material business risks. Management is responsible for the identification, assessment, monitoring and management of material risk throughout the company. Management reports to the Board annually to confirm how each of the company's material business risks is being managed. Management reported to the Board in September 2011 in respect of how material business risks are being managed. The Company's risk management framework is available in the Corporate Governance Manual on the website.

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

Ethical Standards

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

Conflict of Interest

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

Code of conduct

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

Trading in consolidated entity securities by directors and employees

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

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

Communication with Shareholders

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

Compliance with ASX Listing Rules Disclosure Rules

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

Diversity Policy

The Company has established a Diversity Policy that is provided to all Directors and employees on commencement and is available on the Company's website. The Policy does not include a requirement for measurable objectives for achieving gender diversity, because the Company is not of a sufficient size to justify these objectives. The Company currently employs one woman who is neither on the board or a senior executive.

Shareholder Information

DISTRIBUTION OF EQUITY SECURITIES

The distribution of members and their holdings of fully paid ordinary shares and listed options as at 7 September 2011.

Shares held			No. of Shareholders	Percentage
1	-	1,000	59	0.003%
1,001	-	5,000	80	0.103%
5,001	-	10,000	106	0.310%
10,001	-	100,000	608	9.033%
100,001		and over	332	90.551%
Total			1,185	100.000%

Listed Options held			No. of Optionholders	Percentage
1	-	1,000	7	0.005%
1,001	-	5,000	26	0.160%
5,001	-	10,000	40	0.579%
10,001	-	100,000	126	10.306%
100,001		and over	82	88.951%
Total			281	100.000%

Less than Marketable Parcel	Min Parcel size	Holders	Units
Shares	6,024	157	401,168
Options	26,315	126	1,332,874

RESTRICTED SECURITIES

There are no restricted securities.

TWENTY LARGEST SHARE HOLDERS

The names of the 20 largest holders of fully paid ordinary shares as at 7 September 2011 are listed below:

Name	Number of Shares	Percentage
Investmet Limited	50,625,000	18.01%
Mrs Annabel Kate Glover	8,000,000	2.85%
Equity Holdings Pty Ltd and Mr Graham Douglas Riley & Mrs Anne Marie Riley <The Riley Super Fund A/c>	6,768,745	2.41%
Mr Donald Jeffrey Smith & Mrs Patty Susan Smith <GFC Superannuation Fund A/c>	6,541,876	2.33%
Michael Fotios <Michael Fotios Family A/c>	6,075,000	2.16%
Little Breton Nominees Pty Ltd <The Little Breton S/F A/c>	5,755,534	2.05%
Petroe Exploration Services Pty Ltd	5,646,967	2.01%
Hawkestone Oil Pty Ltd	5,625,000	2.00%
HSBC Custody Nominees (Australia) Limited	4,703,342	1.67%
Hosier Investments Pty Ltd	4,644,519	1.65%
Minsk Pty Ltd	3,031,250	1.08%
Mr David Shane Miller	2,812,500	1.00%
PG Binet Pty Ltd	2,629,454	0.94%
Mr Gregory John Loughridge & Mrs Kathryn Linda Loughridge <Talisman S/F A/c>	2,575,000	0.92%
Motta Property Investments Pty Ltd	2,250,000	0.80%
Mr Simon Craig Watson	2,200,000	0.78%
Thomas Allan Patterson	2,175,001	0.77%
Mr Gareth Ken Hoe Tan	2,108,876	0.75%
Mr Peter Charles Pritchard Farris & Mrs Susan Mary Patricia Farris <The Peter Farris S/F A/c>	2,025,731	0.72%
Sechs Limited Partnership	1,979,168	0.70%
	128,172,963	45.60%

TWENTY LARGEST OPTION HOLDERS

The names of the 20 largest holders of options (exercisable at 10 cents on or before 31 October 2012), as at 7 September 2011 are listed below:

Name	Number of Options	Percentage
Mr David John Ower <Ower Family A/c>	9,227,250	17.47%
Mr David Shane Miller	2,476,666	4.69%
Mr Matthew David Burford	1,886,674	3.57%
Mr Phillip William Farris & Mrs Jan Leanne Farris <Farris Family S/Fund A/c>	1,875,428	3.55%
Peak Electrical Services Pty ltd <Peak Investment A/c>	1,650,000	3.12%
Gunz Pty Ltd <Gunz S/F A/c>	1,500,000	2.84%
Mr Brian Lee & Mrs Audrey Lee	1,190,000	2.25%
Mr Andrew William Spencer and Mr Andrew William Spencer <Spencer Super Fund A/c>	1,131,000	2.14%
Vendron Pty Ltd	1,115,000	2.11%
Mr Rowen Langridge	1,000,000	1.89%
Mr John Daniel Moore	1,000,000	1.89%
WIL Nominees Pty Ltd <FTGTP & R S/Fund A/c>	1,000,000	1.89%
Mr Peter Geofery Binet	1,000,000	1.89%
PG Binet Pty Ltd	1,000,000	1.89%
Mr Wayne Alan Sims & Mrs Gloria Helen Eva Sims <Hovea Equity Account>	900,000	1.70%
Minsk Pty Ltd	800,000	1.51%
Mr Mark Sheffield Hancock	775,000	1.47%
Cole Ash and Steven Holdings Pty Ltd	750,000	1.42%
Binet Gables Pty Ltd	750,000	1.42%
Mr Peter Lincoln Simpson	600,000	1.14%
	31,627,018	59.94%

The names of any holder of unlisted options (exercisable at 5 cents on or before 31 March 2012) holding 20% or more of the class of unlisted options, as at 7 September 2011 are listed below:

Name	Number of Options	Percentage
Investmet Limited	16,875,000	42.47%
Michael Fotios <Michael Fotios Family A/c>	2,025,000	5.10%
Equity Holdings Pty Limited	2,006,248	5.05%
	20,906,248	52.62%

The names of any holder of unlisted options (exercisable at 7 cents on or before 31 March 2013) holding 20% or more of the class of unlisted options, as at 7 September 2011 are listed below:

Name	Number of Options	Percentage
Investmet Limited	16,875,000	41.89%
Michael Fotios <Michael Fotios Family A/c>	2,025,000	5.03%
Equity Holdings Pty Limited	2,006,248	4.98%
	20,906,248	51.90%

The names of any holder of unlisted options (exercisable at 10 cents on or before 31 March 2014) holding 20% or more of the class of unlisted options, as at 7 September 2011 are listed below:

Name	Number of Options	Percentage
Investmet Limited	16,875,000	41.45%
Michael Fotios <Michael Fotios Family A/c>	2,025,000	4.97%
Equity Holdings Pty Limited	2,006,248	4.93%
	20,906,248	51.35%

SUBSTANTIAL SHAREHOLDERS

The Company's Register of Substantial Shareholders, prepared in accordance with Chapter 6C of the Corporations Act 2001, recorded the following information as at 7 September 2011:

Holder Name	Number of Shares	Class of Share	Percentage of Issued Capital
Investmet Limited	50,625,000	Ordinary	18.01%

VOTING RIGHTS

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

COMPANY SECRETARY

The Company Secretary is Mr Rowan Caren.

TARGET ENERGY LIMITED

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