



**Breakaway
Research**

January 2013

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Company Information

ASX Code	TEX
Share Price	A\$0.10
Shares + con notes	444.0m
Options	70.8.0m
Market Cap	A\$44.4m
Cash	A\$5.5m
Debt	A\$ 0
Enterprise Value	A\$38.9m

Directors

Non- Exec Chairman	Chris Rowe
Managing Director	Laurence Roe
Non- Exec Director	Stephen Mann
Chairman (TELA USA)	Ralph Kehle

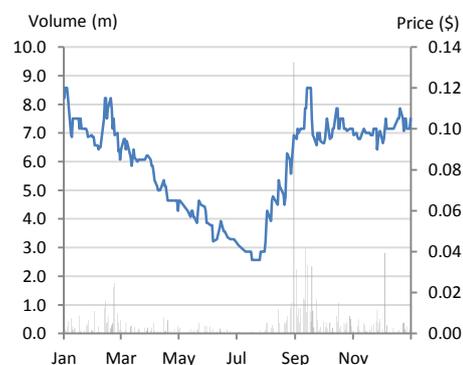
Substantial Shareholders

Investmet Ltd	24.3%
Graham Riley	3.1%
Little Breton S/F	2.7%
Michael Fotios	2.2%
Annabel Glover	2.3%

Company Details

Address	6 Richardson St, Suite 5 West Perth, 6005, WA
Phone	+618 9476 9000
Web	www.targetenergy.com.au

1 Year Price Chart



Source: Bloomberg

Target Energy (TEX)

Increasing activity in the prolific Permian Basin

Recommendation: Speculative Buy

Company Update

Key Points

- **Strategy of applying current technology to tap hydrocarbon reserves in mature oil fields with established infrastructure**
- **Continued oil and gas production success from the Wolfberry and Fusselman formation within the Permian Basin**
- **'Proving up' of the strategy paves the way for numerous similar wells over large prospective licence area**
- **Darwin #1 well set for first production imminently at 160BOPD**
- **Darwin #2 was drilled in Dec 2012 and is awaiting flow testing - Sydney #1 set to reach TD imminently**

Target Energy has now proven its oil and gas exploration strategy within the prolific Permian Basin. A roll out of the strategy is likely to lead to significant oil and gas production increases and a re-rating of the company valuation.

Investment Thesis

Target Energy has established meaningful acreage in historic producing regions, with the objective of steadily growing production via the application of modern oil field technology.

Following on from the drilling success at the BOA 12 #1 well (drilled in 2011) and the Darwin #1 well (drilled in 2012), Target Energy and its partners are continuing to exploit oil and gas rich shales and carbonates within the prolific Permian Basin.

The operators of the Darwin #1 well estimate 200,000bbls of recoverable oil (plus additional high value wet gas) from the Fusselman formation with potential for up to 400,000bbls of recoverable oil. Darwin #1 is currently being tied into local infrastructure and should commence production imminently at an initial estimated rate of 160BOPD and 300mcf of liquids rich gas.

Opportunity exists for significant production increases during Q1 2013 from six wells which are either awaiting completion or are scheduled to be drilled imminently. The Darwin #2 well has reached total depth (TD) and will soon flow test prospective Wolfberry section (strong oil shows were encountered in the Wolfberry section of the nearby Darwin #1 well, increasing the likelihood of an economic well). The Sydney #1 is also set to reach TD imminently. Breakaway expects positive news flow as flow testing results from both wells are released to market.

A further two wells (Darwin #3 and Pine Pastures #3) are also scheduled to be drilled this quarter, further adding to the potential production upside.



Company Update

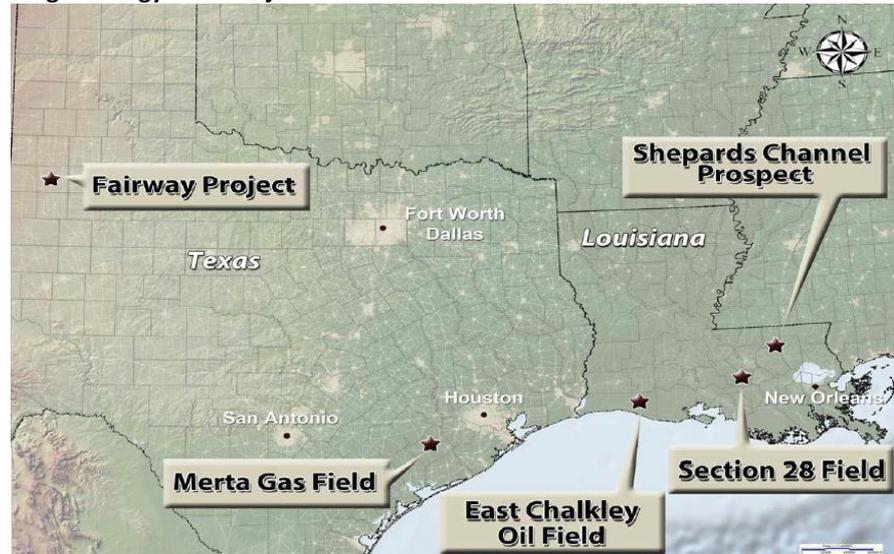
Fairway Project

Target Energy 60%, Trilogy Operating (operator) 30%, Avalon Oil 10%

Highly productive region

The 'Fairway' project straddles the Howard and the Glasscock county border in Texas, USA, and lies within the prolific Permian Basin. The Howard/Glasscock oil and gas field was first discovered in 1925 and has produced over 410Mbbbls of oil and is still highly productive.

Target Energy: Five Project Areas



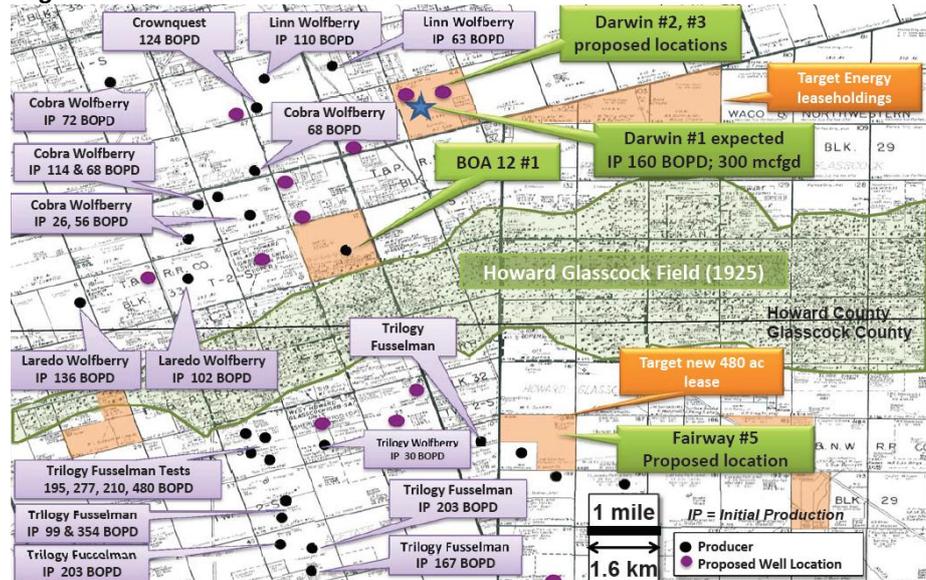
Source: Target Energy

Prospective Lease Holding

The image below illustrates the prospectivity of the region by highlighting the numerous producing wells within the immediate vicinity of Target's lease holdings.

Multiple producing wells in immediate vicinity

Regional wells within the Permian Basin



Source: Target Energy *Note: Fairway #5 has since been renamed Sydney #1



Increased licence area to 3,492 acres

Target (and the partners) recently increased the Fairway project area from 2,873 acres to 3,492 acres, allowing for up to 87 'technically possible' well locations (at 40 acre intervals). There is scope to double the number of possible wells to 174 within the lease holdings should the Texas regulator agree to change the minimum spacing from 40 to 20 acres (operator consensus within the Permian Basin suggests the reservoirs are inefficiently drained under 40 acre spacing and thus should be changed to a 20 acre minimum). This would enhance the exploitation potential and the overall value attributed to the project.

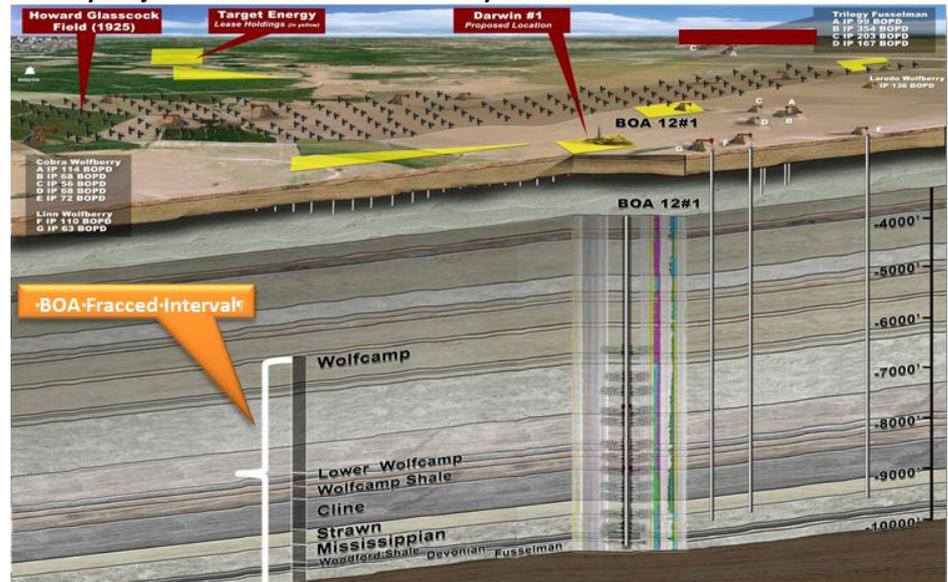
Proven Strategy

New technology allows for production in previously deemed 'uneconomic' zones

Within the Permian Basin, the Spraberry formation hosts the largest oil and gas reserves and is ranked third in the US by total proved reserves and seventh in total production. The Wolfcamp formation lies below the Spraberry and is also a major hydrocarbon producer within the Basin. The Wolfcamp trend is however, also well known for its low permeability. **Advancements in completion methods have made it possible to combine production from the Spraberry and Wolfcamp zones** (known as "Wolfberry" wells) in areas that were previously uneconomic on a standalone basis, achieving robust economic results. Drilling depths of typical 'Wolfberry' wells are between 2,500 and 3,500m (7,000-10,500ft) and would typically include 8-12 fracture stimulations beginning at the bottommost formation.

Productive interval interpreted to be ~1,000 wide

Fairway Project – Permian Basin 'Wolfberry' well



Source: Target Energy

BOA 12 #1

BOA 12 #1 first well to be drilled

In 2H 2011, Target and its JV partners drilled the BOA 12 #1 well targeting the 'Wolfberry' zones and deeper Fusselman formation (at ~10,000ft in above image). The well encountered a 1,080m interval within the Wolfberry section with strong oil shows, as well as an interpreted 5m oil column within the Fusselman formation.

During the frac'ing program across the 11 prospective zones, some of the deeper 'fracs' inadvertently intersected natural fractures within the deeper formations which provided a conduit for water to enter the well. Following a technical review, four of deepest frac stages were plugged with oil production now resumed and stabilising at 25BOPD and 52mcf/d.



Darwin #1

Although BOA 12 #1 production was hampered by significant water issues, the well was still successful in identifying numerous productive zones and so paved the way for the drilling of the Darwin #1 well (in August 2012).

Initial production set to commence at 160BOPD and 300mcfgd

Darwin #1 was drilled to a total depth of 3,070m and encountered strong hydrocarbon shows throughout the Wolfberry sections as well as in the deeper Fusselman formation. The well has now been completed and is set to commence production imminently (once connected to an already laid gas pipeline) at an expected production rate of 160bbls of oil and 300mcf of gas per day, from just the Fusselman formation.

Deeper Fusselman formation highly productive

Pressure testing of the Fusselman reservoir at Darwin indicates that the hydrocarbon accumulation is independent from any other Fusselman accumulations in the area and as such, is considered to be a **new field discovery**. Trilogy Operating (operator and partner of the licence) has conservatively estimated ~200,000bbls of recoverable oil with upside potential of 400,000bbls from just the Fusselman.

Darwin#1 confirms strategy

The completion of the BOA 12 #1 and Darwin #1 wells are a significant step forward for the company as it confirms the 'Wolfberry' strategy (producing hydrocarbons from both the Spraberry and Wolfcamp zones) whilst also highlighting the additional potential which exists within the deeper Fusselman formation. ***The positive results from these two wells now paves the way for a roll out of the strategy across numerous sites within the acreage.***

Darwin #2

Wolfberry section never tested for oil production

The Wolfberry section of the Darwin #1 well encountered significant oil shows however, it was never flow tested as this would compromise the integrity of the well in the deeper and productive Fusselman formation. The nearby Darwin #2 well was originally drilled in 1983 however it was plugged and abandoned as 'uneconomic' at the time. Following the strong oil and wet gas shows from the Darwin #1 well, the JV agreed to re-enter the historical well to test the Wolfberry section (which had not been historically tested). Based on the location of this well with respect to other nearby producing Wolfberry wells, Breakaway believes it is highly likely this well will prove economic. **Breakaway expect results from initial flow testing imminently.**

Sydney #1

Approaching TD – Results awaited

The Sydney #1 well is the latest well to be drilled within the Fairway project area and is located ~10km south of the Darwin wells (on a newly acquired 480 acre licence) and close to other successful Wolfberry and Fusselman wells. The well should reach TD of 3,040m imminently after which flow testing will commence.

Upcoming wells

Darwin #3

Roll out of strategy will see numerous wells drilled

The Darwin #3 well will be drilled ~800m east of Darwin #1 and will also target the Wolfberry and Fusselman sections. Drilling is forecast to commence mid to late Q1 2013.

Darwin #4, #5, #6

No clear timetable has yet been released, however the JV partners envisage the drilling of at least three further Darwin wells by the end of the calendar year.



Fairway Project Summary

Well Name	WI (%)	Comments
BOA 12#1	60%	Wolfberry well - drilled in 2011. Currently producing 25BOPD + 52mcfgd.
Darwin #1	60%	Wolfberry /Fusselman well - drilled in 2012. Initial Fusselman reserves estimated at 200,000 BO. Gas line is currently being laid to the well and should be in production imminently at 160 BOPD + 300 mcfgd.
Darwin #2	60%	Offset to Darwin #1. Re-entry of 1983 well. Will test the Wolfberry formation which exhibited strong oil shows when intersected in adjacent Darwin #1 discovery. Well has reached TD (3,060m) and is awaiting completion (imminently).
Darwin #3	60%	To be drilled (after Sydney #1) ~800m east of Darwin #1 and will target both the Wolfberry and Fusselman formations.
Sydney #1	60%	Drilling in new leasehold. Well is ~1,000m from existing Fusselman well which is flowing at 190 BOPD + 304 mcfgd. Drilling to reach TD imminently after which flow testing will commence.

Source: Target Energy and Breakaway Research

Horizontal Drilling

Additional potential through horizontal drilling

Select operators within the Permian Basin have recently begun to assess the economic potential of extracting oil from the Cline shale formation, which occurs at a depth of ~8,500 – 9,000ft, through the use of horizontal drilling and ‘frac’ing’ along the formation. Once completion methods within this formation are better understood and economic recoveries are achieved by neighbouring operators, Target may also seek to extract hydrocarbons from this zone.

East Chalkley

Target Energy – 35% working interest (Louisiana, USA)

Advancing neighbouring projects

Target Energy and its joint venture partners have already had success in the project area from the Pine Pasture #2 well (drilled in 2008) which is currently producing ~30bopd. The drilling of the proposed Pine Pasture #3 development well has been earmarked for late in Q1 2013, although a definitive timetable is not yet in place.

Target Energy - Total Current Production Summary and Upcoming Wells

Well	Interest (%)	Average daily gas production (mcfgd)	Average daily oil production (BOPD)
Snapper A-2	25%	75	2
Snapper A-3	25%	494	43
Pine Pasture #2	35%	22	27
Merta #1	25%	236	3
BOA 12 – 1*	60%	52	25
Darwin #1*	60%	300 est.	160 est.
Darwin #2*	60%	?	?
Darwin #3*	60%	?	?
Sydney #1*	60%	?	?
Pine Pasture #3*	35%	?	?
Total		1,179	261
Total net to TEX		420	133

*Wells to be drilled or completed for production within the next quarter

Source: Target Energy and Breakaway estimates

At least 142BOPD and 449mcfgd production rate expected



Analyst Verification

We, Grant Craighhead and Andrew McLeod, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Target Energy and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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