

Mossberg's Investor Digest

Best Idea Profile:

Antares Energy Ltd (ASX: AZZ.AX)

DESCRIPTION:

Headquartered in West Perth, Australia; Antares Energy Limited is an oil and gas exploration company working primarily in the Permian Basin area of West Texas. The Company has approximately 30,000 net acres with its main properties including the Northern Star project, which covers an area of 12,400 net acres, and the Big Star project covering an area of approximately 13,125 net acres. The low cost Permian basin has properties with an unusually thick sequence of oil rich shale deposits and conventional reservoirs which are stacked on top of each other. This growth profile of the Company's shale production is less risky than conventional oil & gas plays due to the predictability and repeat production possibilities of shale properties.

KEY INVESTMENT CONSIDERATIONS:

Attractive Shale Play – Antares is focused on the Permian basin in West Texas. This area is currently experiencing a new boom due to shale production. The Permian basin currently has production of about 900,000 BOE per day. Antares has acquired three promising projects with combined potential greater than 100mm BOE of reserves.

New Technology Drives Success Rates – Extraction techniques such as fracking and horizontal drilling have jump started new growth in shale oil. Exploration risks are extremely low for shale plays, as opposed to conventional oil & gas industry, where chances of success are typically in the 10-20% range.

Wolfberry Trend – Antares properties are located in the Wolfberry trend. Due to the thick oil strata in this area, vertical wells can be drilled and completed for a cost of \$1.5MM to \$2.5MM, vs. Bakken or the Eagle Ford wells which have to be drilled horizontally at costs of \$6MM to \$10MM.

Economic Drivers – Due to high oil prices and an over-supply of natural gas in the US market, the ratio of West Texas Intermediate crude oil to US gas prices has moved up strongly. The US petroleum industry has changed its focus and now has more rigs drilling for oil than for gas.

Stock Buyback Program – Antares repurchased 600,000 shares of its stock in December at prices ranging from \$0.37 to \$0.38 cents. The Company has 10.5 million shares left on its repurchase authorization

Drilling Advantage – Antares small size allows it to drill wells with large equity participations for cash outlays of \$28MM. As shale plays are typically statistically driven, more wells equate to a standard success curve thereby reducing risk for the Company and Investors.

New Debt Facility Increases Production – The Company has reaffirmed its 2012 gross production targets of 2,500 BOE per day and 4,000 BOE per day for 2013. Funding is not an issue due to the Company's recently announced \$200 MM debt facility.

Future Funding – Macquarie's Bank agreement to a US\$200MM debt facility is a vote of confidence on Antares and leaves the Company fully funded for all current drilling plans.

VALUATION:

Antares has reiterated its guidance for gross production targets for 2012 and 2013. Current production estimates can lead to a NPV in the \$240 MM range which equates to a stock price in excess of \$0.90 per share, over 2x the company's current market valuation.

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All prices in Australian Dollars

Investment Data (as of 12/30/11)

Recent Price	\$0.43
52-Week Range	\$0.34 - \$0.56
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	281MM
Average Trading Volume (3 mos)	395,000
Market Capitalization	\$121MM
Cash	\$77MM
Long Term Debt	\$15MM
Enterprise Value (EV)	\$53MM
Book Value	\$.36
TTM Revenue	\$4MM
P/ Revenue	Nmf
TTM EPS	NA
P/ EPS	NA
TTM EBITDA	\$63,000
EV/ EBITDA	Nmf

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