ANTARES ENERGY LIMITED

RESEARCH NOTE

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Production Testing to Substantiate Significant Upside

Investment Highlights

- **Fraccing of Frances Dilworth 2H underway.** AZZ is in the process of fraccing the 1st well in its 32,586 acres of highly prospective Eagle Ford Shale. The Eagle Ford is an emerging shale play in the US with robust economics due to observed condensate yields of over 100bbls per mmscf/d. Following fraccing, production testing will be conducted – with results anticipated in early January.

- **Flow rates to prove up massive resource base**. Successful testing of the well will demonstrate that productive Eagle Ford shale extends into AZZ's acreage and supports net contingent resource estimates of over 1.38tcfe. There have reportedly been 53 wells drilled into the Eagle Ford shale play, with a 100% success rate thus far, suggesting low geological risk. Over 90% of these wells have been drilled by a single service provider suggesting that mechanical risk is also low.

- **Development to drive growth.** Following successful testing and tie-in of the Frances Dilworth No. 2H, AZZ will commence follow up wells with the objective of proving up the play, achieving reserves certification and securing acreage under production. The company is reportedly targeting 3 wells by the end of the March Q, 10 wells by year end CY2010, 20 wells by CY2011 and 35 wells by CY2012.

- **Eagle Ford economics are solid.** Analysis of a full field development indicates substantial upside from the successful drilling and development of the assets, providing post-tax NPV of over \$1/mcf with a gas price of \$5/mcf and current oil price assumptions.

- **We maintain our speculative BUY recommendation with a price target \$0.90/sh.** Our valuation is based on a full field development of the existing acreage at the Yellow Rose, Blue Bonnet and Hawkville projects risked at 20%. With geological and mechanical risk at a minimum, our risking is a function of progress towards certification of the modelled 2C resources. Hence we view the booking of reserves as the key driver to value, as would any potential acquirer and will look to upgrade our valuation as reserves certification is progressed.

Year End Dec 31	2008A	2009F	2010F	2011F	2012F
Reported NPAT (\$m)	0.6	1.4	41.6	76.1	107.3
Recurrent NPAT (\$m)	0.6	1.4	41.6	76.1	107.3
Recurrent EPS (cents)	0.4	0.8	17.1	30.7	43.4
EPS Growth (%)	na	130.7	2,001.4	79.4	41.1
PER (x)	133.0	57.6	2.7	1.5	1.1
EBITDA (\$m)	4.7	4.7	43.4	93.4	158.3
EV/EBITDA (x)	19.7	19.5	2.5	0.9	0.4
Free Cashflow	(6.0)	(9.8)	(16.7)	15.4	19.0
FCFPS (cents)	(3.5)	(5.5)	(6.9)	6.2	7.7
PFCF (x)	(13.3)	(8.5)	(6.8)	7.6	6.1
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

22 December 2009

12mth Rating		**BUY**
Price	A\$	0.47
Target Price	A\$	0.90
12m Total Return	%	90.8
RIC: **AZZ.AX**		BBG: **AZZ AU**
Shares o/s	m	246.4
Free Float	%	100.0
Market Cap.	A\$m	115.8
Net Debt (Cash)	A\$m	3.8
Net Debt/Equity	%	151.0
3m Av. D. T'over	A\$m	0.25
52wk High/Low	A\$	0.47/0.04
2yr adj. beta		0.95

Valuation:		
Methodology		DCF
Value per share	A\$	0.90

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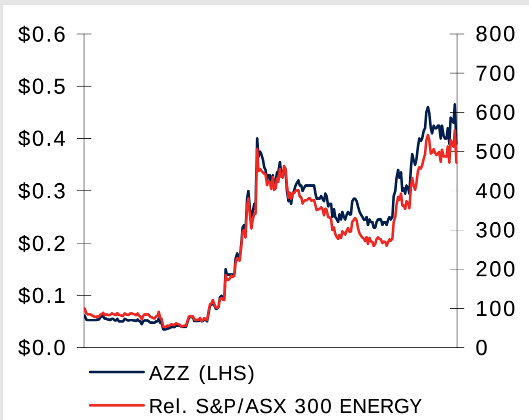
Disclosure: Patersons Securities was the Lead Manager to the \$10m Institutional Placement and \$4.2m SPP in August 2009. It was paid a fee for these services.

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	36.7	8.1	612.8
Rel. S&P/ASX 300	36.6	-4.0	473.8

Summary

- **The Eagle Ford Shale is an early stage yet highly prospective resource play.** The shale play is concentrated along a ~40mile stretch across the LaSalle and McMullen counties in Texas, USA. A number of companies have been very active in the shale, including local operator and JV partner Petrohawk. A success rate of 100% has been reported to date with 53 wells successfully drilled in the shale. Rock properties are very similar to the highly productive Barnett and Haynesville shales with net/gross of ~100%, gas saturations in excess of 80% and EUR's of 4-7bcfe per well. The key to the shale is the high condensate yield which is commonly in excess of 100bbls per mmscf and observed to increase towards AZZ's acreage.

- **Major US companies are moving to secure acreage.** Petrohawk has amassed over 210,000 net acres including the JV area shared with AZZ. Other majors include ConocoPhillips, Apache, Anadarko, Murphy oil, Pioneer and more. In recent news, BP has entered into an agreement with a local private company Lewis Energy, to drill and produce wells on at least 100,000acres.

- **AZZ has a substantial holding of Eagle Ford shale.** AZZ has net interest in over 32,586 acres, prospective for Eagle Ford shale. The company's acreage is largely covered by 3D seismic and has independently certified resources of 840bcfe and 298bcfe estimated at its Yellow Rose and Blue Bonnet projects, respectively (net 2C), plus an estimated 480bcfe of gross resources in the Hawkville term assignment area.

- **Results to date indicate high flow rates with considerable condensate yield.** Results for 14 wells in the surrounding acreage range from 6 to 11.3mcfe/d with an average initial production rate of 8.8mmscfe/d. AZZ recently reported the results of production modelling study completed by NuTech, which concluded a forecast flow rate for the Frances Dilworth No. 2 of 11.4mmscfe/d and an EUR of 6.25bcfe based on core samples and wire-line log results.

- **Our analysis indicates a highly profitable shale.** Based on the NuTech results we have developed a full field model to produce the total estimated resources across the 3 project areas over a 20 year timeframe. The results of the analysis indicate a post-tax NPV of more than $1/mcfe and unrisked upside of ~$4-5/sh.

- **AZZ is at a pivotal point**. The Frances Dilworth 2H was the first well drilled on AZZ's Eagle Ford acreage. Testing of the well is likely to be conducted early in the year following the completion of an 11 stage fracture stimulation procedure. A successful flow testing result will demonstrate that the Eagle Ford shale is productive and inline with expectations and ratify ~1.38tcf of resources estimated across AZZ's acreage. The significance of the result is that, unlike conventional oil and gas, a positive result in a resource play essentially de-risks the entire resource.

- **Reserves to drive Growth**. Definition of reserves across AZZ's interests will be progressed as further wells are completed. The number of wells to book reserves across its total acreage is not clear at this stage however, we hope to gain further insight when AZZ books its maiden reserves – targeted for the June Q following the completion of 2 more wells in the March Q. The reserves not only de-risk the play but provide a value benchmark for the market and underpin value that a potential acquirer would be willing to pay. For this reason we view progress towards certification as a key valuation tool and risk AZZ on this basis.

- **Low Risk / High Value proposition**. We perceive AZZ as a low risk play with considerable upside to be gained as a result of the successful testing and delineation of a productive Eagle Ford Shale gas reserve across it expansive acreage position. Given the strong flow rates and high condensate yields demonstrated to date in adjoining acreage coupled with the 100% drilling success rate experienced thus far, we view the geological and drilling risk as low.

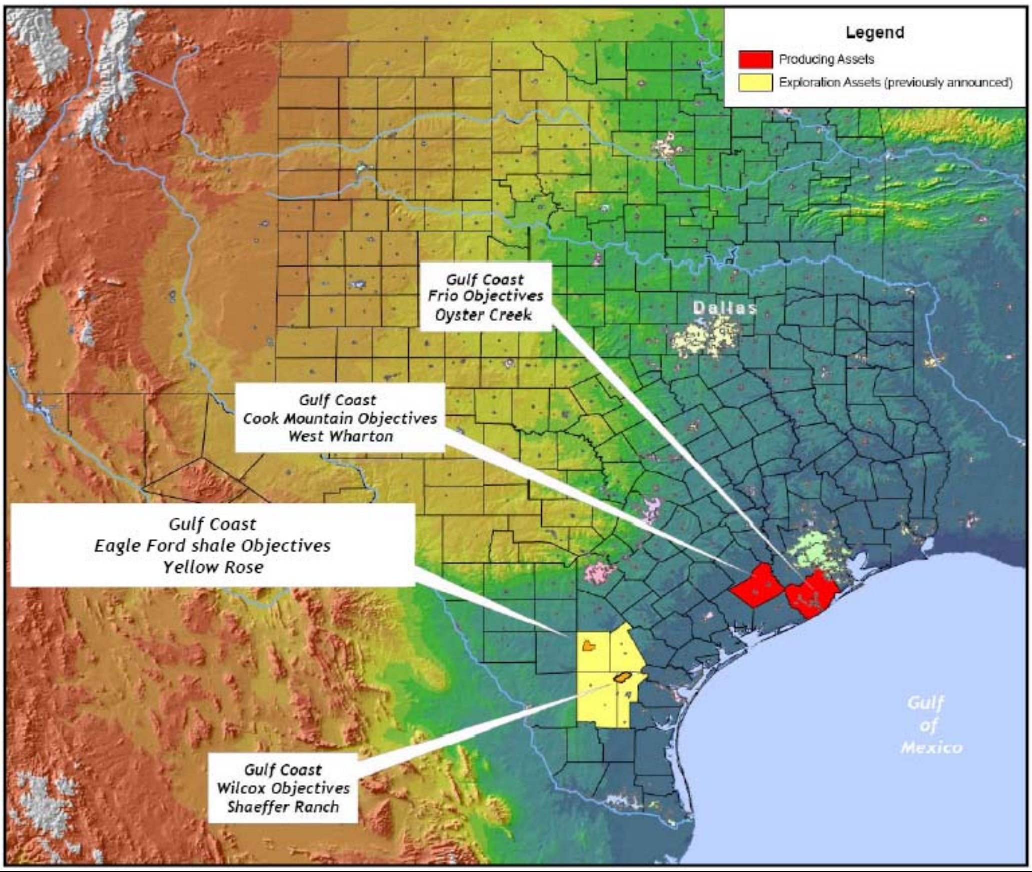
Company Overview

Antares Energy Limited (AZZ) is an oil and gas exploration and production company focused on the onshore Texas gulf coast region in the USA. Antares has interests in two producing assets (Oyster Creek and West Wharton) and two exploration plays (Shaeffer Ranch and its Eagle Ford Acreage) with the focus of the company now on the promising Eagle Ford shale which is prominent in its Yellow Rose, Hawkville Field and Blue Bonnet project areas.

The company has recently had success with the discovery of a prominent Eagle Ford shale resource at its Yellow Rose project area. A large contingent resource has been estimated across the company's interests in the shale, with great anticipation surrounding the imminent fraccing of the Frances Dilworth 2H lateral well, located in the Yellow Rose Project area. The key attribute of the Eagle Ford shale is the high condensate yield which has been observed to increase in the direction of the project area. Flow testing of the well is anticipated to confirm this trend, which will ratify the current resource estimates of the field, based on results seen to date in wells drilled to the south-west of the company's acreage. An additional well, the Donnell 457 No. 1H, was completed recently in the Hawkville project area and is believed to have been fracced, however we are yet to see any results released from Petro Hawk.

AZZ finished the September quarter with A$9m in cash following a capital raising for $10m. Subsequent to the quarter the company raised an additional A$6.2m, via an oversubscribed Share Purchase Plan (SPP) and a strategic placement to a Swiss based investment fund. The company has some 7.5m convertible shares outstanding with an interest rate of 10% and a 1:1 conversion to ordinary shares at $2/sh which mature on the 31 October 2013. This position is being reduced on an ongoing basis via an on-market buy-back.

Figure 1: Company Assets



Source: AZZ Presentation – September 2009

Background

Producing Assets – Oyster Creek & West Wharton

AZZ producing assets include the Oyster Creek Project in Brazoria County and the West Wharton project in the Wharton County. AZZ has a 75% WI in the Oyster Creek project, operated by Slawson Exploration (25%) and is currently producing from the Harrison-2 well. Harrison-2 was brought into production from the secondary F-41 sand in May 2008 and averaged 85bbls of condensate and 0.44mmscf/d for the Sep Q 2009. Due to declining production, AZZ recently re-entered the well and perforated the primary Anomalina "C" sand with success, flowing at 200bopd of liquids and 0.5mmscf/d of gas. Reserves for the field are estimated at 5bcf. A second well, Harrison-3 is planned for drilling.

AZZ has a 26.25% interest in the West Wharton project, operated by CICO Oil and Gas Company (12.5%) and is producing from a single well, Outlar-1, drilled in December 2007. The well averaged 105bbls of condensate and 1.87mmscf/d for the Sep Q. Reserves for the field are estimated at 4bcf.

Shaeffer Ranch - Jim Wells County

AZZ has a 50% interest in the Shaeffer Ranch acreage, operated by San Isidro Development Company (SIDC-50%). The JV holds over 7,400 acres under a three year lease and is targeting a farm-out of its interest in order to progress exploration. The Big Kahuna prospect, located in the project area is estimated at 100+bcf resource potential.

As a general note, we would anticipate that the assets discussed above are essentially now non-core and the majority of the company's attention will focus on the Eagle Ford shale projects.

Eagle Ford Shale Acreage

Overview

AZZ holds interests across a number of project areas targeting the highly prospective Eagle Ford shale. This includes the Yellow Rose, Bluebonnet and Hawkville (Petrohawk Term Assignment) areas. These are summarised as follows:

Figure 2: Eagle Ford Shale Interests

No.	Project	County	Acreage	Interest	Operator
1	Yellow Rose	McMullen	18,274	75.00%	SIDC
2	Bluebonnet	McMullen	5,754	87.50%	SIDC
3	Hawkville	McMullen	8,558	50%*	Petrohawk

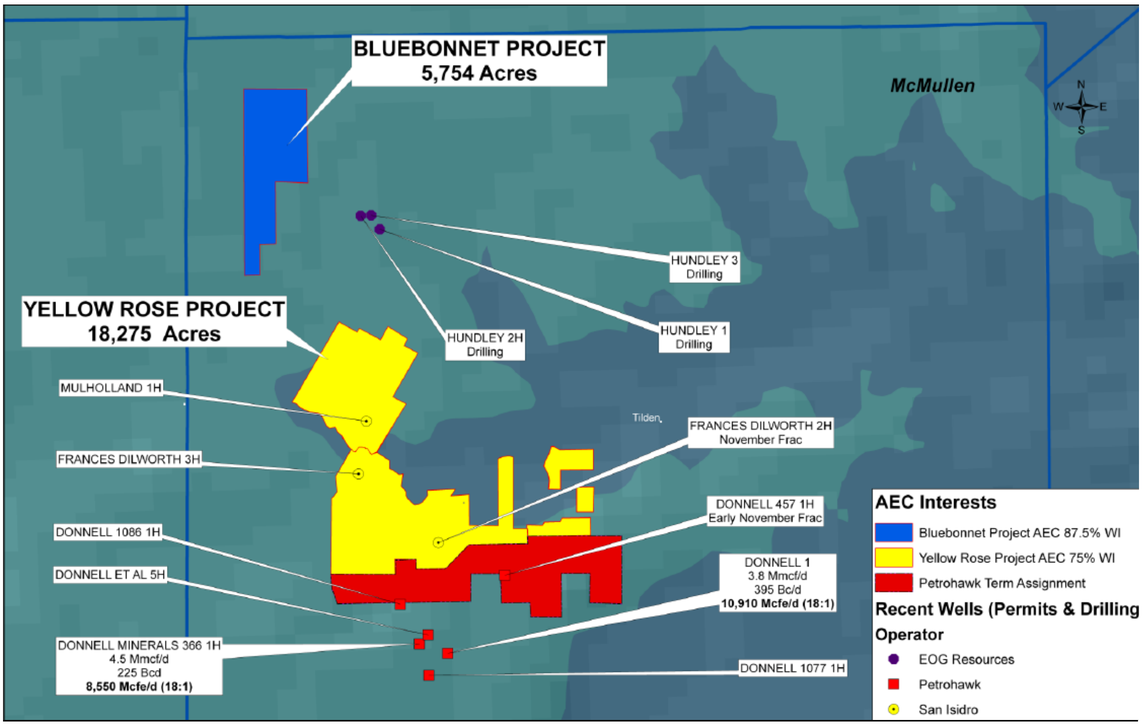
Source: Various

* Terms of the Hawkville project area not known. We assume that AZZ maintain a 50% interest in producing wells.

The Yellow Rose project is operated by SIDC and contains the recently drilled Frances Dilworth No. 2 well. The well commenced in May this year targeting both the Edwards limestone and Eagle Ford shale plus some deeper secondary objectives. The well successfully encountered 140ft of net Edwards formation and 146 feet of net Eagle Ford shale. Production testing of the Edwards failed to meet a hurdle rate of 2mmscf/d so attention has turned to the more prospective Eagle Ford shale. Subsequently, a horizontal lateral into the Eagle Ford shale was drilled, namely the Frances Dilworth No. 2H lateral, along a total 3,400 feet of gas filled Eagle Ford shale. Operations to frac (fracture stimulate) the well are currently underway with Halliburton onsite to complete the 11 stage procedure. This is expected to be completed over the coming week with initial flow results available early in the new-year.

In October this year, AZZ announced it has secured an 87.5% WI in an additional 5,754 acres at the Bluebonnet project, operated by SIDC.

Figure 3: AZZ Eagle Ford Acreage



Source: AZZ Announcement – October 2009

The Hawkville project consists of 8,558 acres operated by local Petrohawk Energy Corporation. All wells drilled on the permit are pursuant to a term assignment, whereby Petrohawk funds the drilling of all wells and AZZ receives an interest following full cost recovery by Petrohawk. The exact terms of the agreement are not known however we believe AZZ retains a 50% interest in the wells following recovery of drilling costs by Petrohawk. In July this year the Donnell 457 No. 1H was drilled on the permit by Petrohawk, a direct offset to the Donnell Minerals No. 1H well, drilled outside the permit area with an initial production rate of 3.8mmscf/d and 395 bopd (note that this is equivalent to 10.9mmscfe/d on an 18:1 basis). Fraccing of the Donnell 457 No. 1H was scheduled to be completed in November this year however it is not clear whether this has been completed - it would appear that JV partner Petro Hawk are less forthcoming with results as it is in the process of securing a massive footprint of acreage which at times conflicts with AZZ's requirements for disclosure.

Resource Potential

The company engaged NuTech Energy Alliance, Ltd. to undertake an independent estimation of the Contingent Resources of Antares Energy's Eagle Ford shale oil and gas assets in the Yellow Rose and Blue Bonnet project area based on the wells drilled in the Eagle Ford shale to date. The estimates were prepared in accordance with generally accepted engineering and evaluation principles as set forth by the Society of Petroleum Engineers (SPE). Assessment of the resource potential of the Eagle Ford acreage held by the company at its Yellow Rose and Bluebonnet projects estimates a net 2C contingent resource of 1.14tcfe. In addition, the company estimates on a similar basis, a gross resource of 480bcfe at its Hawkville project from over 80 well locations of which we assume AZZ maintains a 50% interest. Hence, based on these figures we are currently valuing AZZ based on a net interest in 1.38tcfe.

Figure 4: Yellow Rose Certified Resource (Net)

	1C (Low Estimate)	2C (Best Estimate)	3C (High Estimate)
GAS (BCF)	598	646	668
CONDENSATE (MMbbl)	29.9	32.3	33.4
TOTAL (BCFe)	**777**	**840**	**868**

Source: AZZ – September Quarterly Report

Figure 5: Bluebonnet Certified Resource (Net)

	1C (Low Estimate)	2C (Best Estimate)	3C (High Estimate)
GAS (BCF)	183	229	254
CONDENSATE (MMbbl)	9.1	11.5	12.7
TOTAL (BCFe)	**238**	**298**	**330**

Source: AZZ – September Quarterly Report

Based on Petrohawk findings to date, indicative resource figures and well requirements can be estimated. Recovery per well is expected to be 4-7bcfe with an average estimated ultimate recovery (EUR) of 5.5bcfe. Well costs are estimated at $4-6m with spacing estimated at 8 wells per section (1 section = 640 acres) which equates to 1 well per 80 acres. With well costs estimated at ~$US5m an initial outlay will be required to move the project into production, however it is expected to be largely self-funding based on these estimates. Applying these figures across the entire 32,586 acres provides the following:

Figure 6: Total Resource Potential

Antares Eagle Ford Shale Potential

	Gross Acres	Net Drilling Locations	Resource Potential (Tcfe)	Well Cost (US$)	Estimated Ultimate Recovery
Eagle Ford	32,586	311	1.96	5	5.5bcf

Source: Patersons Estimates

The Eagle Ford Shale

Eagle Ford Basics

The Eagle Ford shale play is located in the Gulf Coast region of South Texas. The play is an upper-cretaceous aged deposit, ranging from 4,000 to 14,000 feet in depth, with thicknesses of 50 to 500 feet. The Eagle Ford shale is a slightly calcareous regional shale, which is gas-charged (circa 8300psi pressure, which is over-pressured), has both primary porosity and matrix porosity, and again is reliant upon fracture development to enhance permeability. It is now common to fracture stimulate deep shale wells in the USA.

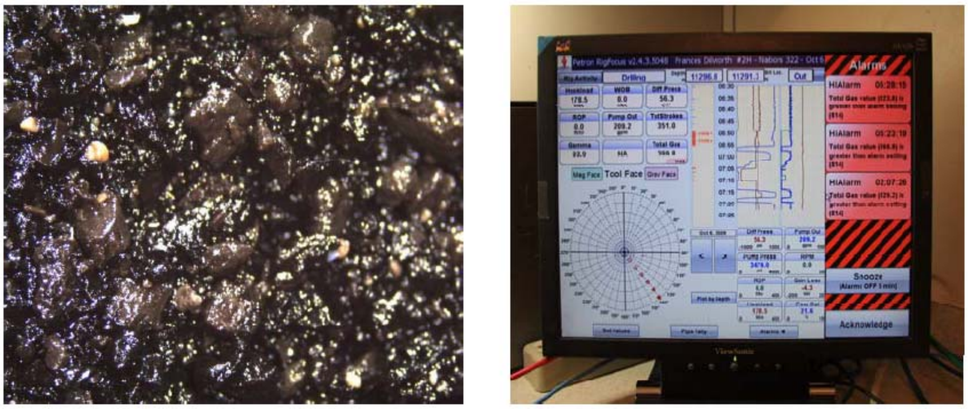
Early drilling results in the Eagle Ford shale have been very positive. Core analysis reveals very positive comparisons for the Eagle Ford in total organic content, porosity, permeability and gas in place relative to other producing shales. AZZ estimates that average ultimate recoveries per well could range from 4-7 bcfe, the midpoint of which trails only the Haynesville shale amongst the major shale plays.

The key characteristics of the shale are highlighted below:

- Organic rich calcareous shale source rock for the prolific Austin Chalk
- Rock properties very similar to the Barnett & Haynesville shales
- Net pay/gross shale interval of near 100%
- Gas saturations in excess of 80%
- Above normal pressure gradient (~0.65 psi/ft) – leads to greater gas recovery
- Strong gas shows seen in wells drilled

With the recent success of Petrohawk, EOG Resources and now AZZ the Eagle Ford shale is fast becoming recognized as a major shale play to rival that of the Haynesville shale. This is further supported by its shallower depth and subsequent lower drilling costs.

Figure 7: **Eagle Ford shale observed from Francis Dilworth # 2 well drilled by AZZ**



Source: AZZ supplied

Regional Activity

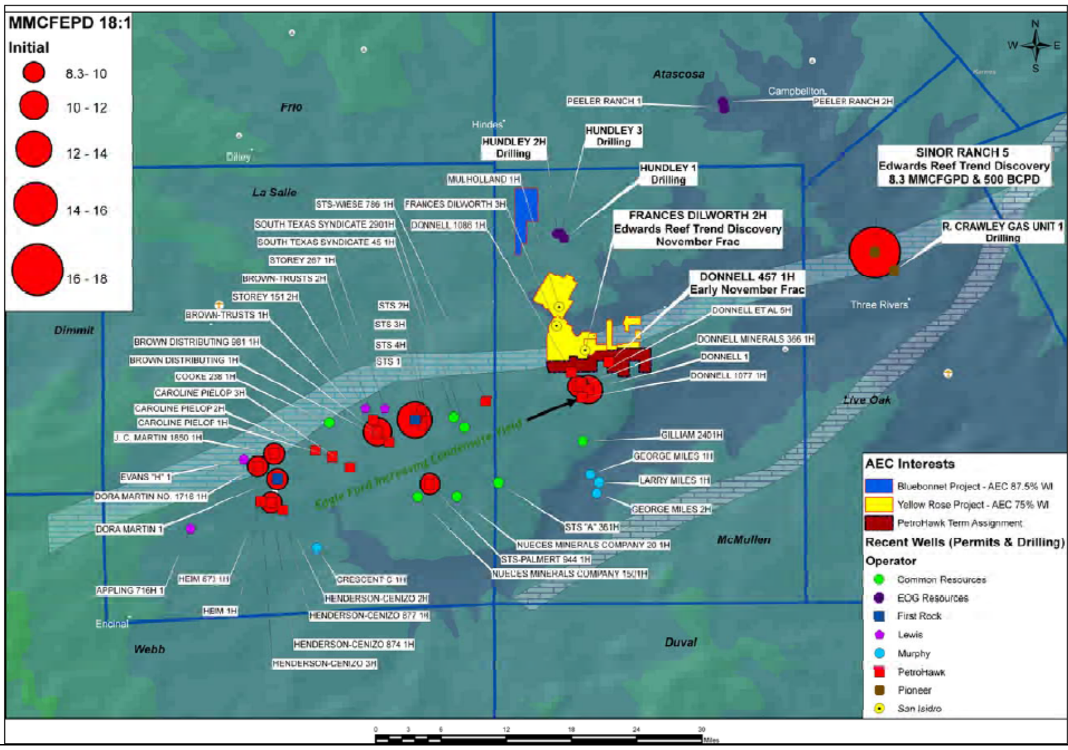
The Eagle Ford shale is the key asset within the AZZ portfolio, offering substantially massive upside from successful delineation of the resource located within its acreage position. The company has a substantial working interest in 32,586 acres in the Eagle Ford and over 311 potential drilling locations based on 8 wells per section. AZZ has been an early mover in the Eagle Ford. Its acreage cost for its assets is about US$400/acre, however prices have reportedly increased to closer to US$3000/acre.

Eagle Ford players surrounding AZZ's acreage have reported results for 14 x Eagle Ford shale wells drilled and completed in 2008 and 2009, of which all flowed gas. The wells had an average IP rate of 8.8mmscfed with a range of 6–11mmscfed. In addition to the 14 reported wells, there are more than 16 Eagle Ford wells currently drilling and awaiting fracture. The specific wells reported to date include:

- STS #1H with an IP rate of 9.1mmscfe/d
- Dora Martin #1H with an IP rate of 8.3mmscfe/d
- Dora Martin 1716 #1H with an IP rate of 9.7mmscfe/d
- Donnell #1H with an IP rate of 6.1mmscfe/d
- JC Martin 1850 #1H with an IP rate of 9.1mmscfe/d
- Henderson-Cenizo #1H with an IP rate of 9.1mmscfe/d
- STS Palmert #1H with an IP rate of 9.1mmscfe/d
- Donnell 1066 #1H with an IP rate of 6.1mmscfe/d
- Brown Trust #1H with an IP rate of 9.3mmscfe/d
- Sinor Ranch #1H with an IP rate of 11.3mmscfe/d
- Galvan Ranch #1H with an IP rate of 8.0mmscfe/d
- Briscoe Apache Ranch #1H with an IP rate of 7.1mmscfe/d
- Sinor Ranch #1H with an IP rate of 11.3mmscfe/d
- STS #241H with an IP rate of 9.1mmscfe/d

Recent wells have been drilled with horizontal laterals of about 3,500ft and have been fracced in up to fourteen stages.

Figure 8: Regional Eagle Ford Activity



Source: AZZ – November 2009 Presentation

The high deliverability of the shale has seen a acreage grab by a number of significant US players. Due to the continuity of the shale the driver for local US companies is to acquire as much land as possible and suggests that AZZ's primary position makes it a realistic acquisition target.

Figure 9: "Running with the Big Dogs"

Company	Ticker	Market Cap	Eagle Ford Acreage	Stated Resource Potential	Eagle Ford Presentation
ConocoPhilips	NYSE:COP	$64B	300,000	Not disclosed	E&P Overview
Apache	NYSE:APA	$29B	450,000	Not disclosed	Annual Report
Anadarko	NYSE:APC	$25B	350,000	6 Tcfe	EnerCom Conference
Murphy Oil	NYSE:MUR	$11B	100,000+	3.4 Tcfe	Annual Meeting
Petrohawk	NYSE:HK	$6B	210,000	7 Tcfe	2nd Quarter Results
Pioneer Natural Resources	NYSE:PXD	$3B	310,000	Not disclosed	2nd Quarter Results
St. Mary Land & Exploration	NYSE:SM	$2B	225,000	3.2 Tcfe	EnerCom Conference
Swift Energy	NYSE:SFY	$600M	82,000	Not disclosed	IPAA Conference
Rosetta Resources	NASDAQ:ROSE	$600M	35,000	650 Bcfe	EnerCom Conference

Source: AZZ – November 2009 Presentation

Valuation

Base Case Valuation

We maintain our BUY recommendation with an upgraded price target of $0.90/sh based on our modelling of a full field development of AZZ's interests in the Eagle Ford shale. We highlight the that this is a speculative recommendation pending the production testing of the Frances Dilworth 2H well to confirm that the shale is as productive as anticipated. However, we view the geological and mechanical drilling risk as minimal given the success rates to date in neighbouring acreage. Our valuation and key sensitivities are summarised as follows:

Figure 10: Base Case Valuation

Valuation	A$m		A$/sh
Producing assets	11		0.03
Yellow Rose - Eagle Ford	186		0.54
Bluebonnet - Eagle Ford	59		0.17
Hawkville - Eagle Ford	72		0.21
Exploration and Appraisal	3		0.01
Cash (est)	11		0.03
Debt	(15)		(0.04)
Corporate	(15)		(0.04)
Other	0		0.00
Total @ 10% Discount Rate	**311**		**0.90**
Price Target			**0.90**
Price Target Sensitivity	**-10%**	**0%**	**+10%**
Gas Price Sensitivity (A$/sh)	0.81	0.90	0.98
Oil Price Sensitivity (A$/sh)	0.83	0.90	0.97
Exchange Rate Sensitivity (A$/sh)	1.00	0.90	0.81

Source: Patersons Estimates

Our valuation is based on a risked full scale development model of AZZ's net 2C resources at Yellow Rose and Blue Bonnet and estimates resources in the Hawkville project area. Our basic assumptions are as follows:

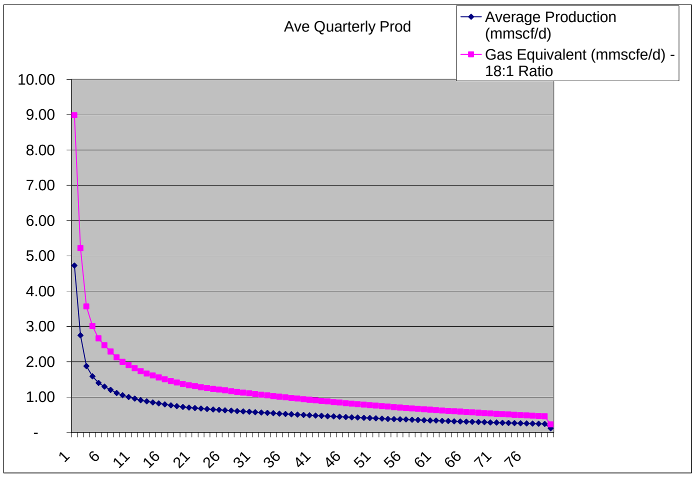
- We have modelled each well in accordance with the estimates provided by NuTech for the Frances Dilworth No.2H well – initial production rates of 6mmscf/d and 300bbls/d and declining in accordance with the provided chart. EUR of each well is estimated at 4.8bcf and 0.24mmbbls.
- Capital costs for each well are estimated at $US5m to drill, frac and complete with an allowance of an additional US$50k to tie-in. We also allow for a 10% failure rate.
- We have modelled in operating costs of US$0.50/mcf to remain conservative. However the company indicates that in reality operating costs are minimal as gas will be tied into Petrohawks' facilities and pay a much smaller amount for processing and tolls. However the rate allows for future costs of operating a ~300 well development.
- We have assumed 3 wells are drilled by the end of the March Q, 10 wells by year end CY2010, 20 wells by CY2011 and 35 wells by CY2012. Following this we have assumed that 2 x rigs could complete 6 wells per quarter.
- In the case of the Hawkville assignment area, we have modelled in the full drilling cost recovery to Petrohawk, followed by a subsequent 50% share in revenues pre-royalty. We have assumed a flat 25% royalty across all permits.

- Our base case model assumes a real gas price of US$5/mcf which is below the current forward curve. Our low case of $4/mcf certainly still provides a strong cash flow and value. Liquids prices are inline with our oil price assumptions - below those determined on an 18:1 basis.

- We have currently risked the projects at 20% and plan to unwind this risking as progress towards a 100% conversion to reserves is progressed.

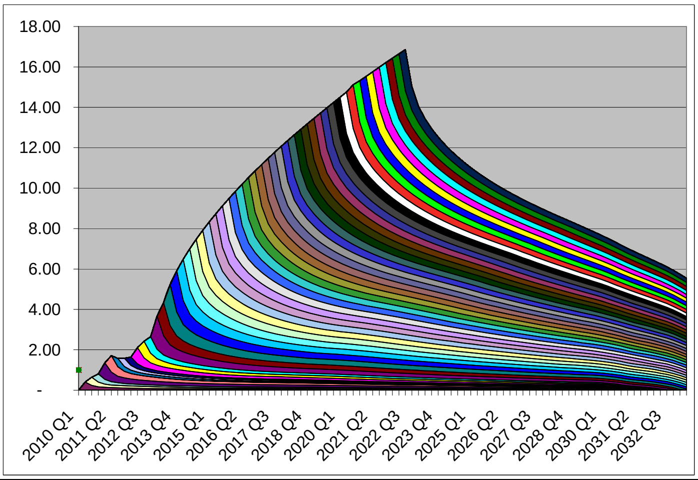
- Analysis of single well economics shows that a well pays-back capital costs after 12 months at our base case commodity assumptions. A full field development is largely self-funding, however it does require upfront capital to bring the first wells into profitable production. Based on our analysis AZZ would require ~A$40m over 2010/2011. Hence, in order to account for this we have factored in additional equity of A$50m, diluting our valuation by an additional 100m shares at A$0.50/sh issue price. In reality the share price should be significantly above this level and the company will aim to avoid dilution of this amount – however to remain conservative it has been factored in.

Figure 11: Individual Well Profile – Quarterly Basis



Source: Patersons Estimates

Figure 12: Yellow Rose – Gas Production per Quarter (bcf)



Source: Patersons Estimates

Risks

- Geological risk – In general the key difference and attribute of a resource play is that the geological risk is considerably low on a proven play, in comparison to conventional oil and gas resources. The results of wells completed on adjacent acreage to date have successfully defined a continuous and productive shale with a strong condensate yield, evidenced to increase in the direction of AZZ's acreage. Hence, while we eagerly await the result of the current frac and test operation, we view the risk of failure as minimal.

- Mechanical Risk – the risk of issues with the drilling, completion and fraccing of wells remains the primary risk. However, Halliburton has amassed considerable experience in the shale, drilling over 90% of the wells to date. Hence experience learned on the previous well is gained by AZZ. AZZ maintains an active interest in the program and has a company representative onsite at all stages, ensuring that all appropriate mitigation is in place.

- Commodity Prices – Gas and oil prices have an obvious effect on the value of the development. However, the project is still certainly economic and lower gas and oil prices than used in our base case and therefore effects the value only which we have currently risked heavily.

- Drilling Costs – Due to the early stage of development costs to drill the Eagle Ford are expected to come down as a more continuous and effective procedures are employed. Hence our assumption of $US5m per well, based on current rates, will likely exceed future costs.

Looking Ahead – Key Value Drivers

Looking ahead the key value drivers are as follows:

- Production testing of Frances Dilworth No. 2H – Early January
- Subsequent drilling and testing of 2 x wells – Jan Q 2010
- Maiden reserves certification - June Q 2010

Other Issues

Gas Prices

Gas prices in the US have certainly been volatile over the past 2 years, reaching a high of US$13.37 (all in mmbtu) on the 1st of July 2008 to a low of US$1.73 on the 4th of September this year. Our analysis focussed on gas prices of low, mid and high cases of $US4, $US5 and US$6 per mcf, before selecting the mid-case as our base case assumption. A price of US$5/mcf real is below the current forward curve, yet captures the strengthening prices. Current forward prices are US$5.78 for the Jan 10 contract, through to US$6.74 for Dec 10. Longer dated prices include SU$6.97 for Dec 11, US$7.23 for Dec 12, US$7.49 for Dec 13, US$7.57 for Dec 14 and US$7.46 for Dec 15.

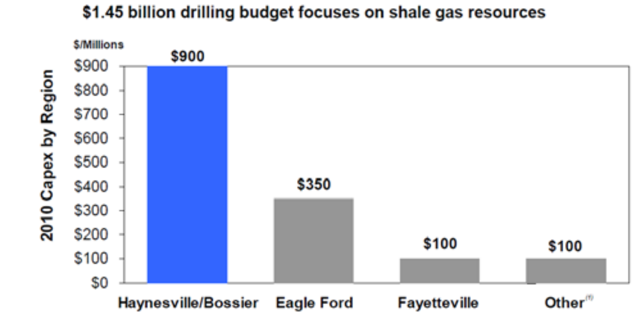
Petrohawk Corporation

Petrohawk is an experienced local shale operator with interests in a number of highly productive shales across the US including the Fayetteville, Haynesville, Lower Bossier and Eagle Ford shale. Its interests are immediately adjacent to AZZ's acreage and are JV partner in the Hawkville term assignment area. Petrohawk has acquired over 225,000 acres across the Eagle Ford shale in the LaSalle and McMullen counties. The company estimates a total of 7tcfe of resource potential with ~1600 drilling locations. In its 2009 capital budget the company committed US$120m to the drilling of 33 wells and in 2010 have allocated a budget of a further US$350m, as provided below. The commitment of this seasoned shale campaigner to the Eagle Ford is indicative of its quality. Petrohawk has reportedly acquired a number of JV partners previously to boost its acreage position and we believe would be a likely acquirer of AZZ as it moves to strengthen its position in the play.

Figure 13: Petrohawk – An active shale player

Source: Company Presentation – November 2009

Figure 14: Petrohawk 2010 drilling budget



	Haynesville/Bossier	Eagle Ford	Fayetteville	Other
2010 Avg. # of Op. Rigs	17	4.5	1	3
2010 Wells Planned:				
# Operated	112	60	21	29
# Non-Operated	207	22	355	52

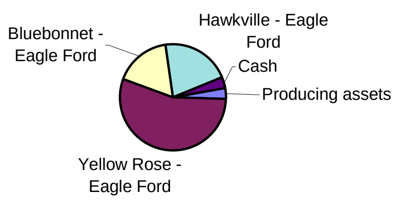
Source: Company Presentation - November 2009

Antares Energy Ltd $0.47

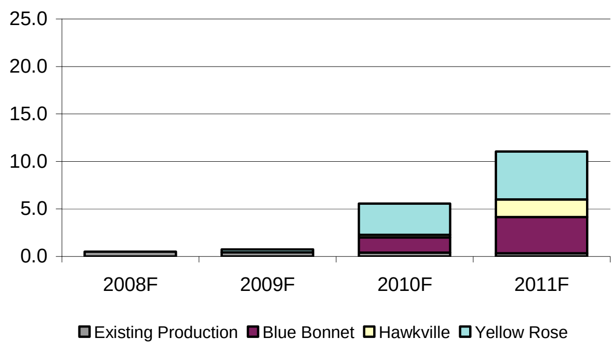
Valuation	A$m	A$/sh
Producing assets	11	0.03
Yellow Rose - Eagle Ford	186	0.54
Bluebonnet - Eagle Ford	59	0.17
Hawkville - Eagle Ford	72	0.21
Exploration and Appraisal	3	0.01
Cash (est)	11	0.03
Debt	(15)	(0.04)
Corporate	(15)	(0.04)
Other	0	0.00
Total @ 10% Discount Rate	**311**	**0.90**
Price Target		**0.90**

Price Target Sensitivity	-10%	0%	+10%
Gas Price Sensitivity (A$/sh)	0.81	0.90	0.98
Oil Price Sensitivity (A$/sh)	0.83	0.90	0.97
Exchange Rate Sensitivity (A$/sh)	1.00	0.90	0.81

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources

Reserves	Oil/Cond (mmbbl)	Gas (bcf)	Total (mboe)
2P Reserves as at Dec 2008	0.04	3.26	0.58

Directors

Name	Position
James Cruickshank	Chairman & Chief Executive Officer
Matthew Gentry	Director & Chief Operating Officer
Gregory Shoemaker	Director & Chief Scientist
Vicky McAppion	Director & Company Secretary
Mark Clohessy	Non-Exectutive Director

Substantial Shareholders

	Shares (m)	%
HEP Oil GP. L.L.C	24.0	9.9
Yandal Investments Pty Ltd	12.2	5.1

Year End December 31

Commodity Assumptions	2008A	2009F	2010F	2011F
A$:US$	0.85	0.75	0.82	0.80
Crude Oil - WTI (USD/bbl)	99.61	56.71	77.50	86.06
Gas Price - Base Case (US$/GJ)	5.00	5.17	5.06	5.16

Production Summary	2008A	2009F	2010F	2011F
Gas (bcf)				
Yellow Rose	0.00	0.23	2.54	3.89
Blue Bonnet	0.00	0.00	1.22	2.94
Hawkville	0.00	0.00	0.20	1.41
Oyster Creek	0.00	0.64	0.61	0.58
West Wharton	0.00	0.14	0.12	0.11
Total Gas (bcf)	**0.00**	**1.01**	**4.70**	**8.91**
Liquids (mmbbl)				
Yellow Rose	0.00	0.01	0.13	0.19
Blue Bonnet	0.00	0.00	0.06	0.15
Hawkville	0.00	0.00	0.01	0.07
Oyster Creek	0.00	0.04	0.05	0.03
West Wharton	0.00	0.01	0.01	0.01
Total Liquids (mmbbl)	0.00	0.06	0.25	0.45
Total (bcfe)	**0.50**	**0.73**	**5.57**	**11.04**
Total (mmboe)	**0.09**	**0.12**	**0.93**	**1.84**

Profit & Loss (A$m)	2008A	2009F	2010F	2011F
Sales Revenue	**8.1**	**6.4**	**48.4**	**101.2**
Other Income	1.4	0.2	0.7	1.6
Operating Costs	0.9	0.5	3.7	7.5
Exploration Exp.	1.7	0.0	0.0	0.0
Royalties	0.0	0.0	0.0	0.0
Corporate/Admin	2.2	1.3	2.0	2.1
EBITDA	**4.7**	**4.7**	**43.4**	**93.4**
Depn & Amort	1.6	1.6	0.3	1.4
EBIT	**3.1**	**3.1**	**43.1**	**92.0**
Interest	2.5	1.7	1.5	1.4
Operating Profit	**0.6**	**1.4**	**41.6**	**90.5**
Tax expense	0.0	0.0	0.0	14.5
Minorites	0.0	0.0	0.0	0.0
Discontinued Operations	0.0	0.0	0.0	0.0
NPAT	**0.6**	**1.4**	**41.6**	**76.1**
Normalised NPAT	**0.6**	**1.4**	**41.6**	**76.1**

Cash Flow (A$m)	2008A	2009F	2010F	2011F
Adjusted Net Profit	0.6	1.4	41.6	76.1
+ Interest/Tax/Expl Exp	4.2	1.7	1.5	15.9
- Interest/Tax/Expl Inc	11.7	9.2	1.5	15.9
+ Depn/Amort	1.6	1.6	0.3	1.4
+/- Other	(0.7)	(0.0)	0.0	0.0
Operating Cashflow	**(6.0)**	**(4.5)**	**42.0**	**77.4**
- Capex (+asset sales)	0.0	5.3	58.7	62.1
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	**(6.0)**	**(9.8)**	**(16.7)**	**15.4**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	2.5	10.4	30.0	10.0
+ Debt drawdown (repaid)	(1.0)	(1.2)	0.0	0.0
+ Other	0.0	1.7	0.0	0.0
Net Change in Cash	**(4.5)**	**1.1**	**13.3**	**25.4**
Exchange rate effects	1.1	(0.8)	0.0	0.0
Cash at End Period	5.6	5.9	19.2	44.6
Net Cash/(Debt)	(13.0)	(9.2)	4.1	29.6

Balance Sheet (A$m)	2008A	2009F	2010F	2011F
Cash	5.6	5.9	19.2	44.6
Total Assets	22.1	33.6	109.2	195.3
Total Debt	18.6	15.1	15.1	15.0
Total Liabilities	19.6	29.6	63.6	73.6
Shareholders Funds	2.5	4.0	45.6	121.7
Ratios				
Net Debt/Equity (%)	518.6	230.9	na	na
Interest Cover (x)	1.2	na	na	na
Return on Equity (%)	23.9	36.5	91.3	62.5

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