

FLASH NOTE

BELL POTTER

ENERGY

Antares Energy (AZZ)

Excellent flow rates from the shales in the Permian basin

Cottonwood-1 exceeds 300boepd. AZZ has announced very encouraging results from three wells at the Southern Star project in the Permian basin of West Texas. Cottonwood-1 has started very strongly at over 300boepd and has had to be shut-in to install production facilities that can handle the greater than expected volumes. This flow rate is double the anticipated initial production (IP) of around 150boepd but there have been some examples of nearby wells doing a few hundred boepd at IP so it's not unheard of. Lonestar-1 has now produced for 60 days and after a peak of 148boepd has averaged 109boepd in the last month and is in line with the type curve. Finally, Smith-1 has not yet reached peak IP but has tested in excess of 150boepd so looks like another encouraging start.

Plenty of news flow ahead. AZZ is active in all three project areas, with an increase in news flow expected over the coming weeks and months. There will obviously be follow up information on the wells in Southern Star, where an additional two wells have been drilled, plus news from Big Star where four wells have been drilled, with two cleaning up after fracking and two awaiting fracking. At Northern Star, the water influx at Newborough-1 well is still being evaluated and Cozart-1 awaits fracking.

Spec Buy reinforced. We initiated a Spec Buy on AZZ in late July with a \$1.04 price target on a risked basis, as both the Big Star and Northern Star projects are risked at 50%. Our unrisked valuation is \$1.54 so there is plenty of upside in this US oil shale play. Initiation report attached.

Recommendation: Spec Buy

Previous Close: \$0.435

Price Target: \$1.04