



# ANTARES ENERGY LIMITED

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**28 March 2016**

## CHAIRMAN'S LETTER TO NOTEHOLDERS

**Dear Noteholders,**

I am writing to you prior to the Noteholder's meeting on the 31<sup>st</sup> March 2016 as it is important you are fully aware of the circumstances of this meeting.

### **Preparation for Redemptions 30<sup>th</sup> October 2015**

The AZZG Convertible Notes were created by a previous Board of Directors back in 2003, however the current Board has established a perfect track record of meeting all coupon interest payments to date over a more than 12 year period. Antares has successfully reset or redeemed the notes as directed by noteholders in 2006, 2009 and 2012. Additionally the Board has conducted multiple Convertible Note Buy Backs, Buying Back in the secondary market whenever possible.

The Board has always viewed meeting the coupon interest payments and redemptions of the Convertible Notes of the highest importance as is evidenced by the above track record as well as more recently the sale of Southern Star more than 12 months in preparation to meet the 30<sup>th</sup> October 2015 reset or redemption date.

The sale of Southern Star on 24<sup>th</sup> October 2014 resulted in 50,000,000 USD and 4,300,000 Breitburn Common Units (NASDAQ:BBEP) being ~ 125,000,000 USD in exchange for ~ 3,700 net acres representing ~ 35,000 per acre. The BBEP at the time of the sale were paying a monthly distribution which when annualized was ~ 10,000,000 AUD. Antares subsequently announced the On Market Buy Back of up to 100% of the Convertible Notes on issue. Antares was able to Buy Back On Market 6,000,000 notes for consideration of 11,844,874 AUD at prices between \$1.90 and \$2.00 before exhausting on market sellers at the time.

Upon completing the Southern Star sale Antares expected it would have ~ 100,000,000 AUD of cash or cash equivalent with which to meet any or all Convertible Note redemptions in just over a year's time on the 30<sup>th</sup> October 2015.

Antares was very much aware of its next reset date more than a year out and in keeping with 2006, 2009 and 2012 had prepared accordingly as well as provided immediate liquidity in the secondary market for those noteholders that desired it through the On Market Buy Back post the Southern Star sale.

## **Southern Star Sale Considerations**

The sale was not possible as an all cash transaction.  
The Breitburn Common Units were unsaleable for 180 days.

The only two options available were the deal we completed or no deal.  
Antares would not be in business today if we had not executed the Southern Star transaction as completed.

Antares examined all options with its investment bankers to protect against the downside risk of owning Breitburn Common Units over the 180 day period following the sale.

A viable solution could not be found as any form of shorting the stock was prohibitive.

Additionally Antares considered a very imperfect solution of hedging the Oil Price, however this was of unreasonable risk as it was possible that Breitburn Common Units could decline due to reasons specific to the Company and the Oil Price could have recovered resulting in Antares destroying value in both outcomes.

Antares endeavored to do all possible to execute the best possible transaction and protect value achieved but in keeping with the rest of the industry at the time could not have known the actions of OPEC in November 2014 and the depth and length of the consequences of their actions.

## **Pursuit of Liquidity Event**

After the November OPEC 'Surprise Shock Announcement' as it is now known and the subsequent dramatic fall in the Oil Price, Antares pursued an additional Liquidity Event so as to be able to meet the 30<sup>th</sup> October 2015 reset or redemption date.

As announced, 7<sup>th</sup> September 2015 Antares believed it had achieved such a Liquidity Event with the execution of Purchase and Sale Agreements for the sale of both Northern Star and Big Star. Antares negotiated in good faith to achieve closing the sale of one or both of these assets prior to the 30<sup>th</sup> October 2015 so as to be able to meet the pending reset or redemption date.

The Purchaser did not honor their commitments and Antares sought a five month deferral of the reset or redemption date so as to be able to close the pending transaction or create an alternate Liquidity Event.

## **The Pledge during 30<sup>th</sup> October 2015 – 31<sup>st</sup> March 2016**

Antares pledged that during the five month period from 30<sup>th</sup> October 2015 to 31<sup>st</sup> March 2016 it would pursue the below:

1. Make both quarterly interest coupon payments being 30<sup>th</sup> October 2015 and 29<sup>th</sup> January 2016.  
Antares honored its commitments and both payments were made.
2. Pursue Wade Energy Corporation to meet its legally binding obligation of completing the sale of Northern Star and Big Star as documented.  
Antares proactively pursued this outcome, however the Oil Price trading below 27 USD in both January and February did not assist and this objective whilst still open is not yet achieved.

3. Pursue Joint Ventures so as to create a Liquidity Event suitable for Convertible Noteholders.  
Antares did just this and again the Oil Price downward volatility was not helpful to achieving a suitable outcome in the timeframe required.
4. Pursue a formal sales process with a full service investment and merchant bank.  
Antares completed this process making contact with over 250 Permian Basin pre-qualified potential purchasers. Again the Oil Price was repeatedly at its recent worst during this process, however with the Oil Price seemingly becoming more stable and developing a fledgling upward trend we are now engaging in multiple follow up meetings both last week and scheduled for next week. These meetings have been very encouraging and we hope will result in binding and completed outcomes.
5. Pursue refinancing options so as to refinance the Convertible Notes.  
Antares pursued multiple refinancing options. Again the volatility and low point of the Oil Price in both January and February did not assist in achieving the desired outcome, however Antares did all it possibly could to achieve a funding solution by 18<sup>th</sup> March 2016.

Antares achieved everything that was within its complete control being the two interest coupon payments and did all it could to achieve outcomes in the other pursuits during the period of what appears to be the double bottom in the Oil Price at less than 27 USD during both January and February.

Antares is continuing to pursue a Liquidity Event and believes it can be achieved in the current more stable and upward trending Oil Price given additional time.

### **Resolution One – Vote For**

The Board of Directors and I believe Noteholders should vote for Resolution One for the following reasons:

1. The Board has established a long history in meeting the redemption requests of Noteholders and believes they will be able to do so again given time.
2. The Board has established a long history of achieving project sales from Australia to Turkey to the USA and believes they will be able to do so again given time.
3. The Board is highly motivated to meet the needs of Noteholders and has demonstrated this through amendments to Resolution One which are both value adding and security enhancing, after consultation with Noteholders.
4. The Board is deeply engaged with current parties to achieve the Noteholders desired redemptions and it is expected given time the desired results will be achieved.
5. The Board believes with a less volatile and upward trending Oil Price a result can be achieved to meet the needs of all Noteholders and no one can achieve this more quickly than the current management.

## **Resolution Two – Vote Against**

The Board of Directors and I believe Noteholders should vote against Resolution Two for the following reasons:

1. The Resolution will not achieve a sale.
2. The Resolution will not achieve a joint venture.
3. The Resolution will not achieve a refinance.
4. The Resolution will achieve unknown additional costs in Trustee and Legal as well as associated professionals.
5. The Resolution will achieve the diversion of Management time away from the Noteholders preferred task of working to return their capital and interest due.

Yours in doing all possible to return your capital and interest due as quickly as possible,

James Cruickshank  
Chairman

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