



# ANTARES ENERGY LIMITED

A.C.N. 009 230 835

Ground Floor  
63 Hay Street  
Subiaco WA 6008

PO Box 690  
West Perth WA 6872  
[www.antaresenergy.com](http://www.antaresenergy.com)

24<sup>th</sup> June 2014

## ANTARES RESPONSE TO LONE STAR LETTER TO SHAREHOLDERS DATED 13 JUNE 2014

Dear Fellow Shareholder,

We provide the following responses to Lone Star's letter to Antares shareholders dated 13 June 2014.

Lone Star say: Our interests are directly aligned with yours.

### ANTARES RESPONSE

The Antares Directors hold circa 6 % of the issued stock and no Director has ever sold a share. We believe this fact combined with years of hard work getting the Company to its current position demonstrates proven shareholder alignment.

Lone Star say: We believe the right plan and the right Board can double Antares' share price.

### ANTARES RESPONSE

The current board reviews regularly and rigorously all available opportunities to enhance Antares' share price via acquisitions, strategic alliances, and timely sales of maturing assets. The board has guided the existing assets from timely and well-priced acquisition to valuable holdings reflected by the valuation of external parties and in our view, the pursuit of Lone Star to gain majority control of the Board and effective control of the company without making all shareholders a bid or paying a premium. We will continue to work diligently to see the share price reflect what we and external parties including Lone Star believe is the fair value of our Permian assets for all shareholders.

Lone Star say: Contrary to Antares' statements in its Notice of Meeting, Lone Star Value has \$115 million (not \$50 million) of assets under management.

### ANTARES RESPONSE

Our statement was that Lone Star was founded with approximately \$50 million in funds under management.

Lone Star say: We believe that current CEO James Cruickshank has impaired shareholder value.

#### ANTARES RESPONSE

Since James Cruickshank was appointed CEO on 1 July 2008, the Antares share price has increased from \$0.068 (opening price) to \$0.50 (closing price) on 5 June 2014, representing an increase of 635% or more than 100% per annum. Over the same period, the Antares share price has outperformed the U.S. peer group identified by Lone Star by more than 300%.

Lone Star say: This Management-dominated Board is Entrenched. Antares' current Board is composed of three executives and only one independent director.

#### ANTARES RESPONSE

In 2009, with the Company's existence threatened following the Global Financial Crisis and the resignation of the existing independent Directors, it was the CEO James Cruickshank who stayed on with executives McAppion and Shoemaker, who stepped up to become Directors, to save and rebuild Antares. The fact is Antares couldn't afford to spend its scarce capital on additional non-executive Directors. It needed hands on executives who were also shareholders fighting for its survival.

The ASX Corporate Governance Policy recognises that it's not always appropriate to follow their recommendations to the letter and states:

*"The ASX Corporate Governance Policy recognises that different entities may legitimately adopt different governance practices, based on a range of factors, including their size, complexity, history and corporate culture. For that reason, the Principles and Recommendations are not mandatory and do not seek to prescribe the Corporate governance practices that a listed entity must adopt."*

Antares fully supports the move towards all of the ASX Corporate Governance recommendations and aims to meet the highest of standards. It does, however, also seek to work within the flexibility offered by those principles given the nature, size and development of the Company.

The Board of Directors believe it is appropriate to move to a majority of independent Directors as the Company grows in size and value.

The Board intends to present shareholders with the opportunity to consider the nomination of new independent Directors in due course.

Lone Star say: We do not believe Antares' management-dominated Board is properly overseeing Antares' valuable assets given the current CEO's unbridled power, and we believe shareholders' best interests are put a distant second to management's personal interests under the current Board arrangement. For example, we see Antares' recently outlined \$979 million capital expenditure plan (of nearly eight times its current market cap) as an imprudent development strategy resulting, in our view, from the CEO's unrestrained power and lack of proper oversight.

#### ANTARES RESPONSE

This is simply not true. Antares has never outlined a 'go it alone scheme' much less a \$979 million capital expenditure plan without regard to joint venture partnerships or asset sales to access or redeploy capital. The reality is that the Board has a successful, proven track record of identifying assets, developing them to add value and then selling them for a significant profit. Our previous projects were developed with partners; TPAO in Turkey, SIDC in the Eagle Ford, Texas and Petrohawk / BHP in the Eagle Ford, Texas. We

are constantly looking for larger successful companies to partner with and are open to any form of attractive joint venture that minimises risk and adds value. We are currently in joint venture and divestment discussions concerning our existing assets with a number of parties.

Lone Star say: In our view, this Board is deeply entrenched.

#### ANTARES RESPONSE

If entrenched means dedicated, hard working, driven to succeed and passionate Antares people then yes, we are entrenched in the process of delivering value to shareholders.

Lone Star say: We believe that this entrenchment and poor corporate governance is a major reason Antares stock trades at such a large discount to its intrinsic value and has underperformed its Permian Basin peers.

#### ANTARES RESPONSE

The fact is that since James Cruickshank was appointed CEO on 1 July 2008, the Antares share price has increased from \$0.068 (opening price) to \$0.50 (closing price) on 5 June 2014, representing an increase of 635% or more than 100% per annum. Over the same period, the Antares share price has outperformed the U.S. peer group identified by Lone Star by more than 300%.

Lone Star say: Not surprisingly, Mr. Cruickshank appears to have taken full advantage of his position of unfettered control of our Company in taking a \$590,000 interest free loan from the Company in 2010 to buy a multi-million dollar house in an expensive neighbourhood in Dallas, Texas. Wouldn't this money have been better spent drilling oil wells to grow our production volumes and our share price?

#### ANTARES RESPONSE

This is incorrect. The history of this agreement begins with the previous independent majority Board, inclusive of an independent Chairman and two additional independent Directors, before James Cruickshank became CEO.

When James Cruickshank accepted the then Board's request to move his young family from Perth to Dallas it was for an agreed period of 3 years. Part of that agreement was that Antares would provide housing for him which it did so as part of his remuneration. When the Board subsequently asked him to stay on and takeover the CEO position and remain in the US for another 4 years he was subsequently offered the choice of the company continuing to provide rented accommodation or his current arrangements. This offer was made by the Independent Chairman of the Antares Audit and Remuneration Committee.

James Cruickshank's acceptance of the then independent Chairman and independent majority Board's request to move to Texas demonstrates his dedicated 'whatever it takes', 'can do' approach to creating wealth for shareholders

Lone Star says: We launched our campaign to add expertise and independence to Antares' Board as we felt shareholders should finally be heard in the boardroom.

#### ANTARES RESPONSE

We do listen to our shareholders. James Cruickshank's mobile phone number is readily available at the bottom of ASX announcements and he is in regular contact with shareholders. He has developed a long

established reputation for returning all shareholder calls into the early hours or as soon as differences in time zones allow.

We also note that every Board resolution put to shareholders since July 2008 has been passed overwhelmingly, including at the recent May 2014 AGM.

Lone Star say: It is puzzling to us that in its Notice of Meeting, Antares claims that Lone Star Value is attempting to take control of the Company without paying a premium to shareholders.

#### ANTARES RESPONSE

Lone Star is seeking to remove two existing Directors and appoint five of its own Directors. If successful the Board would be dominated by candidates of Lone Star's choosing, whilst it holds only circa 6% of shares in Antares.

As we have stated in our Letter to Shareholders this, in our view, is all about a circa 6% shareholder seeking to gain control of your Board Of Directors and if effective control of the Company is to pass to Lone Star, or the Board is to be dominated by candidates proposed by Lone Star, we believe all shareholders should receive an offer for the fair value of their shares, including a premium for control.

Lone Star say: What premium has CEO Cruickshank paid to the shareholders of Antares?

#### ANTARES RESPONSE

Since James Cruickshank was appointed CEO on 1 July 2008, the Antares share price has increased from \$0.068 (opening price) to \$0.50 (closing price) on 5 June 2014, representing an increase of 635% or more than 100% per annum. Over the same period, the Antares share price has outperformed the U.S. peer group identified by Lone Star by more than 300%.

Placements of shares have been at a premium as have the issues of convertible notes. Additionally shares and convertible notes have been bought back at a discount delivering greater value to shareholders.

Lone Star say: Mr. Cruickshank has had no success drilling in Southern Star thus far as production per day has declined since 2011. We do not believe the current leadership has the expertise to properly develop Antares valuable Permian Basin acreage.

#### ANTARES RESPONSE

Excerpt from the Chairman's Report of 2013 AGM held on the 14<sup>th</sup> May 2014

Antares during 2013 continued its strategy of developing its Permian assets. This strategy began in 2011 when it acquired and developed its three Permian projects being Southern Star, Northern Star and Big Star. In 2012 Antares achieved its two principle objectives being to hold Southern Star by production and exceed gross daily production of 2,500 BOED. In 2013 the implementation of Antares' Permian strategy continued with the endeavour to achieve commercial success in Northern Star. This was achieved with the drilling and commercial development of Cozart 19. The strategy then required the drilling of additional Northern Star wells so as to assess if the commercial success of Cozart 19 was repeatable. Debnam 22 was deepened, Cozart 11 and Pettaway 1 were drilled and all three wells completed to sales.

Lone Star say: A critical component of our plan is the need to rigorously explore ALL strategic alternatives and joint venture opportunities with seasoned partners for the Company's Permian Basin assets – Southern Star, Northern

Star, and Big Star. Recently, CEO Cruickshank made innuendos in the press and at the sparsely attended annual general meeting that Antares is in talks with an interested party for the sale of Southern Star and may be considering options for joint ventures for Northern Star and Big Star.

#### ANTARES RESPONSE

Excerpt from Chairman's Report of 2013 AGM held on the 14<sup>th</sup> May 2014

The Board of Directors preliminary assessment is that Northern Star can be commercially developed and thus full field development should be pursued as this will result in the greatest creation of wealth for shareholders.

The Board is currently assessing the best commercial options for the full field development of Northern Star including; the sale of assets and redeployment of capital, joint ventures and all funding options.

Lone Star say: The incumbent directors have a lack of relevant M&A experience, legal experience, or oil & gas financial experience on the current Board, relative to Lone Star Value's candidate's experience.

#### ANTARES RESPONSE

We refer you to the resumes of the current Board, available on our website, demonstrating the relevant Oil and Gas, Financial and Corporate experience which have transformed Antares from a Company on the brink of administration in 2008 to the position it is in today. Moreover it is this Board which developed both the Eagle Ford projects which returned a \$75,000,000 Net Profit After Tax which was then redeployed into our Permian Assets. Lone Star, without a track record of developing oil and gas assets in the Permian Basin or anywhere else, tells us that they have the better plan.

It is not the professionalism of the Lone Star nominees in question, but moreover if successful the Board would be dominated by candidates of Lone Star's choosing, whilst it holds only circa 6% of shares in Antares.

Lone Star say: We saw Mr. Cruickshank paradoxically attempting both to sell the majority of the Company's assets and simultaneously issue value-diluting convertible debt.

#### ANTARES RESPONSE

The Board received an unsolicited conditional offer for the sale of the Company's Permian Projects with no guarantee of proceeding and whilst this process was unfolding continued the business of raising funds to further develop Antares' assets. Should we have stopped all development for 6 months whilst waiting to see the outcome of the sales process? Is this the kind of "expertise" Lone Star would bring?

The funding process undertaken saw convertible notes issued at a significant premium to the market price of Antares Shares and allowed us to continue field development of both Southern and Northern Star projects without diluting shareholders.



Lone Star say: Instead of letting us hold a general meeting at our cost, this Board is calling its own General Meeting in a manner that restricts our flexibility to set the meeting agenda and determine the content of our materials - at the shareholders' expense.

#### ANTARES RESPONSE

The Antares Directors have a fiduciary duty to act in the best interests of all shareholders and whilst we are disappointed to have to spend shareholder funds due to the unnecessary actions of Lone Star, we could not allow the potential direction of this company to be dictated by Lone Star.

Lone Star say: Antares current Board is refusing our request that any directors appointed unilaterally by the Board before the General Meeting be put forth before shareholders for removal at the General Meeting allowing Mr. Cruickshank the opportunity of potentially "packing" the Board ahead of allowing the shareholders to be heard.

#### ANTARES RESPONSE

Lone Star requested us to put 8 resolutions to the meeting. The first 7 resolutions are being put to the meeting as required under the Corporations Act. On advice, the Directors have exercised their lawful discretion not to put the 8th resolution described above to shareholders as it was determined to be incapable of being validly passed.

Lone Star say: CEO Cruickshank has claimed in the press that he is open to our input but has stated that he has not "... received a single idea or suggestion about better management" Lone Star Value has published a detailed Five Point Plan to double the Company's value with concrete suggestions.

#### ANTARES RESPONSE

That is correct. When we sought discussions with Lone Star about its five-point plan to improve the performance of Antares, it quickly became clear that there was no detail or substance behind it. When questioned extensively by our Chairman, James Cruickshank, the only consistent thread was a desire for Board control.

Your Board has reviewed the "Five Point Plan" and concluded there is no detailed or clear alternate plan for delivering value for the benefit of all shareholders.

Lone Star say: We ask you to support our efforts to remove two current employee directors, Ms. Vicky McAppion and Mr. Greg Shoemaker, and to elect our five highly-qualified, independent director candidates with directly relevant experience for Antares.

#### ANTARES RESPONSE

Mrs McAppion is the Company's Finance and Administration Manager. Mrs McAppion has more than 20 years accounting experience in the energy and resources industries and 13 years with the Company. Mr Shoemaker is the Company's Chief Scientist. Mr Shoemaker has more than 30 years experience in onshore/ offshore international and US oil and gas exploration.

The Board considers that the removal of these Directors and the loss of their experience and expertise would destabilise the company at an important time in the company's development. We have significant opportunities before us and the focus of the Board and management must remain upon delivering value from these opportunities for shareholders

Antares asks all shareholders to VOTE AGAINST all resolutions which in our view, risk passing control of the Board to Lone Star, and therefore risk giving them effective control of the company without all shareholders receiving a bid or a premium for control. The Antares Board believe that if control of the company is to pass to another entity, shareholders should receive an offer for their shares and a premium should be paid for control.

If Lone Star wish to gain control of Antares, the Board of Directors recommends they buy 19.9% of Antares and then make a cash on market bid available to all shareholders at a premium.

For further information please contact:

James Cruickshank

Chairman & CEO

+ (61) (0) 488 222 122

or + (1) 214 762 2202

Or visit our website: [www.antareshenergy.com](http://www.antareshenergy.com)



Antares Energy is an oil and gas exploration and production company focused on the Permian Basin, West Texas, United States of America.

Currently Antares has three core projects being Southern Star, Northern Star and Big Star each located in the prolific Wolfberry Trend of the Permian Basin.

Antares Energy is an Australian public company listed on the Australian Securities Exchange (ASX) under the ticker symbol AZZ.

For more information please visit our website found at <http://www.antareshenergy.com>.