Brookside Energy

BRK.AX

A research platform of MST Financial

16 September 2024

Making Money

Equity Research Australia

Energy

Stuart Baker, Senior Analyst
stuart.baker@mstaccess.com.au

Profit history established, there is more to come

- **1H24 profit confirms successful production business in the USA**
- **Current activity is guided to drive production to ~2500BOEPD by 4Q CY24, a ~230% increase over 2Q CY24 with a commensurate lift in revenue and cash-flow.**
- **BRK is profitable, operationally cash-flow positive, with nil debt and $22M cash.**

Brookside's core asset is in the Anadarko Basin in Oklahoma (USA) where ultra-long lateral horizontal wells are delivering exceptional results, flowing through to an impressive track record of profits, with more to come from current activity, at the FMDP project.

Completion of the current FMDP project wells by Q4 2024 will materially boost production, revenue and cash-flows. BRK guides for an increase to ~2500BOEPD. The boost in cashflow funds the next development phase (~16 wells over the next three years) from 2025 and the learnings to be applied improve the chances of success in this expanded program.

BRK is in a strong financial position to fund the next growth phase, with nil debt, no hedging, $22M in cash and low-cost, positive cash-flow production. The next phase is an expanded field development of ~16 more wells over 2025-2027.

Investment Thesis

Strong growth in production, revenue and profit over the outlook. The 4-well FMDP is nearing completion, and de-risks and informs the next phase, being a 16-well development commencing in 2025 to exploit ~8.5 MMBOE of 2P oil and gas reserves.

BRK has the corporate capability to deliver. The balance sheet and cash-flows can fund development activity. BRK operates its key fields and can control expenditures. Management is competent in the focus area with >20 years experience. USA logistic and Governmental support is strong.

BRK is undervalued on NPV of 11.6MMBOE of 2P reserves. Earnings and cash-flow multiples are low. Drilling results, and production and revenue momentum over the outlook are catalysts for a re-rating.

Valuation: A$0.057 (Unchanged)

MST's Valuation is an NPV of 2P production. Cash-flow multiples trending to <1x in the outer years are compelling value measures.

Risks

Cashflows are governed by USA energy prices which are volatile. Production wells may not perform as expected with downside to reserves and future revenue. Up-front development costs are high and increases financial risk if drilling results are negative or revenue outcomes lower than planned.

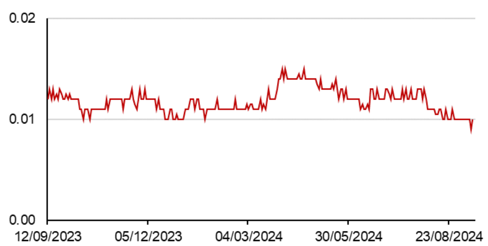
Brookside in an independent oil and gas production company focused on production in the Anadarko Basin, Oklahoma. This area is resurgent due to new technologies and BRK has, since 2015, built up a significant acreage position in the regions most prolific area.

Valuation	**0.057** *(unchanged)*
Current price	**0.010**
Market cap	**A$48M**
Cash on hand	**$22M**

Upcoming Catalysts / Next News

Period	
2H 24	FMDP well results
2H 24	Increasing production & revenue
2H 24	NYSE listing & share consolidation

Share Price



Source: FactSet, MST Access

Figure 1: Financial summary. Year end December. All currency in A$ unless otherwise stated

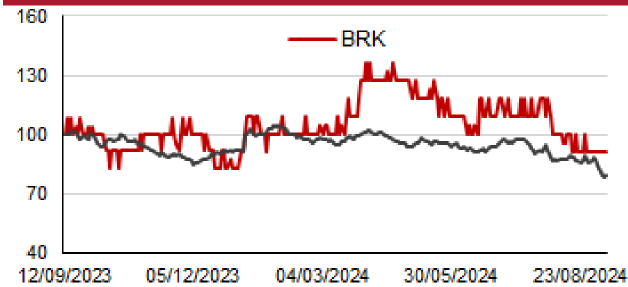
Brookside Energy

Brookside Energy BRK.ASX

All figures in A$

Market Data	Y/E Dec 31	A$	Lo	Hi
Share price	A$/sh	0.010		
52 week range	A$/sh		0.008	0.021
Shares on issue	M	4773		
Other capital	M	0.00		
Market Cap	A$M	48		
Net Cash	A$M	22		
Enterprise Value	A$M	26		
Valuation	cps	0.056		

Chart



Investment fundamentals	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (cps)	0.35	0.34	0.26	0.60	0.85
PE	2.9	2.9	3.8	1.7	1.2
DPS (cps)	0	0	0	0	0
Yield-%	-	-	-	-	
EV/EBITDA	1.2	0.9	1.2	0.6	0.5
	-	-	-	-	
Revenue/BOE (A$)	128	97	84	97	104
EBITDA/Sales-%	42%	52%	47%	53%	63%
Net cash (debt)	33.9	26.2	14.8	-5.8	-13.0
ND/(ND+E)	NM	NM	NM	5%	8%

Realised prices	FY22A	FY23A	FY24E	FY25E	FY26E
Gas- US$/ Mcf	9.04	3.85	3.49	4.48	4.59
Oil-US$/bbl	94.80	82.47	81.10	77.83	79.39
A$/US$ rate	0.71	0.70	0.67	0.67	0.67

Production (Net)	FY22A	FY23A	FY24E	FY25E	FY26E
Gas- Bcf	0.88	1.21	1.27	1.39	1.15
Liquids (MMbbl)	0.28	0.35	0.34	0.62	0.68
MMBOE	0.42	0.55	0.55	0.85	0.87
% liquids	65%	63%	62%	73%	78%
BOEPD	1159	1515	1518	2337	2384

Reserves (MMBOE)	1P	2P
Gas- BCF	10.7	29.4
Liquids	2.3	6.7
Total BOE	4.1	11.6
% oil	57%	58%

SoP Valuation	Method	Unrisked	Risk	Risked
SCOOP 2P	DCF- 2P	328	75%	246
Other		0		0
Core E&P Value	A$M	328		246
Net cash		22		22
Debt		0		0
Other financial assets		0		0
Total asset value	A$M	350		268
Shares on issue		4778		4778
Value Per share	**A$**	**0.073**		**0.056**

Income statement	FY22A	FY23A	FY24E	FY25E	FY26E
Gas Revenue	9.0	4.7	3.5	6.2	5.3
Oil Revenue	13.9	42.1	29.4	69.1	77.0
Revenue	54.0	53.5	46.3	82.5	90.7
Production costs	27.0	22.1	19.8	35.0	29.2
Corporate costs	4.5	3.8	4.6	3.4	4.0
Other	0.0	0.0	0.0	0.0	0.0
EBITDA	**22.4**	**27.6**	**21.9**	**44.1**	**57.5**
Exploration write-offs	0.1	0.0	0.0	0.0	0.0
Depreciation	6.0	10.9	9.0	15.5	17.0
EBIT	**16.3**	**16.7**	**12.9**	**28.5**	**40.5**
Finance charges	1.2	0.0	0.0	0.0	0.0
Pre-Tax profit	**15.1**	**16.7**	**12.9**	**28.5**	**40.5**
Tax	0.0	0.0	0.0	0.0	0.0
Net Profit	**15.1**	**16.7**	**12.9**	**28.5**	**40.5**
Impairments	0.0	0.0	0.0	0.0	0.0
Statutory income	15.1	16.7	12.6	28.5	40.5
Share count at EOP (M)	5012	4765	4771	4771	4771

Cash flow	FY22A	FY23A	FY24E	FY25E	FY26E
Receipts	55.4	51.6	46.4	78.5	86.7
Payments	-21.8	-33.3	-26.5	-38.4	-33.2
Interest & other	0.0	0.7	1.7	2.0	2.0
Net cash from ops.	33.6	19.0	21.6	42.1	55.5
Exp & Dev capex	-23.8	-22.3	-33.0	-62.7	-62.7
Acquistions / other	-7.9	-1.0	0.0	0.0	0.0
Net investing	-31.8	-23.3	-33.0	-62.7	-62.7
Equity issue/ repurchase	15.7	-3.1	-0.1	0.0	0.0
Debt Issue /(repay)	-1.2	0.0	0.0	20.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Net cash Finaning	14.5	-3.1	-0.1	20.0	0.0
Increase in cash	16.9	-7.7	-11.4	-0.6	-7.2
Cash at EOP	33.9	26.2	14.8	14.2	7.0

Balance sheet	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	33.9	26.2	14.8	14.2	7.0
Recievables / Inventory	4.4	3.9	2.4	5.4	8.4
Exploration & evaluation	29.1	32.4	53.0	53.0	53.0
Production assets	26.5	32.6	46.5	93.7	139.4
other	0.0	0.0	0.0	0.0	0.0
Total Assets	**93.8**	**95.1**	**116.8**	**166.3**	**207.8**
Payables	22.0	11.4	17.4	27.4	37.4
Debt	0.0	0.0	0.0	20.0	20.0
Other	0.1	0.3	0.3	0.3	0.3
Total liabilities	22.1	11.7	17.7	47.7	57.7
Total equity	71.7	83.4	99.1	118.6	150.2

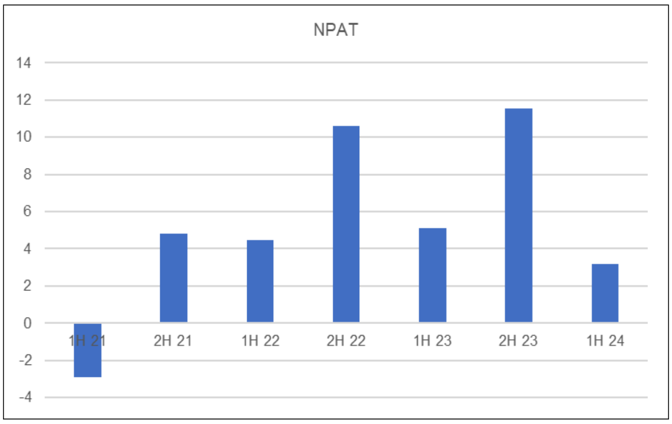
Source: MST Access estimates

USA production continues to deliver profits

BRK continues its track record of profits from its operated wells in the USA Anadarko Basin. The latest half year (1H FY2024) was lower than the p.c.p, due to lower production as existing wells deplete naturally. Even so, BRK has delivered:

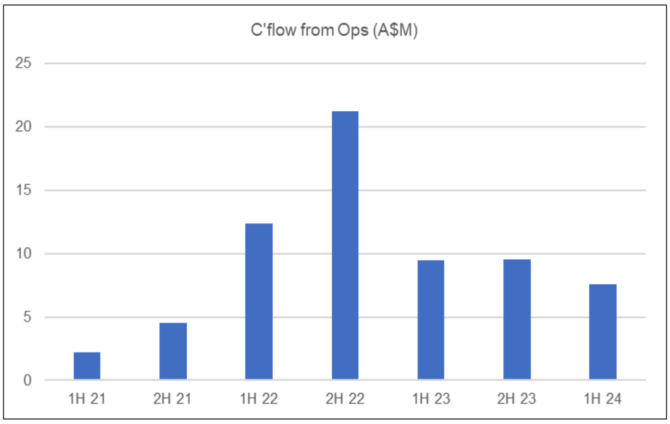
- Another profitable half year, the fifth in a year, of $3.17M from revenue of $15.4M.
- Net cash from operating activities of $7.5M, equating to ~$37.5/BOE of production.
- Half -year end cash of $21.8M, nil debt and nil hedging.
- Capex in the half of $12M,which funded the drilling and completion of four wells and production infrastructure at the Flames-Maroons development project (FMDP). This investment underpins a sharp increase in production from 4Q 24 as these wells are progressively brought into production.

Figure 2: Half year NPAT (A$M)



Source: BRK reports

Figure 3: Half yearly cashflow from operations



Source: BRK report

This is a very strong financial position to enable growth

The strong balance sheet and positive cashflow from existing operations support a scale-up in development activity. This is underway now and will accelerate in CY2025. Key points are:

- Complete the CY2024 drilling of 4 wells in the SWISH area FMDP (**F**lames **M**aroons **F**ield **D**evelopment). This targets an increase in production from the current ~1200 BOEPD to ~2500BOEPD.
- Embark on the SWISH full field development in 2025, with ~16 new development wells over next 3 years, targeting an increase in production to an average of 4500BOEPD in FY2028, with commensurate growth in revenue and profit.
- BRK guides for US$111M in revenue and US$50-60M NPAT (at ~$70/bbl oil prices) in FY 2028.

The value is compelling, and the USA is a great place to be in oil & gas.

Earnings multiples and NPV of future cashflows evidence a deep discount to fair value. Refer to the valuation section for more detail. It's fair to ask "why so cheap" but BRK is not unique among small mining and oil companies struggling to attract investors. In our view, there is a perception that this is temporary success story, or that its tough to make money in the USA.

We considered this in our initiation report (13 June 2024) and subsequent reports. The facts are that BRK's executive team has been active in the USA for 20 years. The profit track record is established. And as this analyst found on a due diligence visit to the field, things get done in the USA, unlike Australia where the industry is paralysed by red or green tape, or by lack of rigs or contractors.

Initiatives to address the low share price.

BRK announced two initiatives to expand the shareholder base and shrug-off the "penny-dreadful" tag.

The first is to list on the NYSE via ADR's. This makes sense given BRK's north American asset base.

The second is to undertake a 1-for-50 share consolidation, reducing the number of shares on issue to 95.5M, subject to shareholder approval.

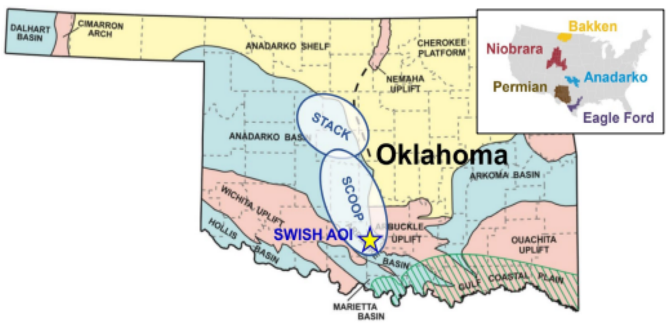
Recap of the company and progress to date

In 2015, BRK embarked on building an oil and gas business in the Anadarko basin, a major oil and gas production region producing for more than 100 years, and now revitalised with horizontal drilling and new completion technologies (hydraulic stimulation aka "fraccing") to unlock large volumes of oil and gas in liquids rich, but low permeability shale rocks.

BRK acquired acreage in the prolific SCOOP area (refer to glossary and figure 4) and had stunning success from a 4-well operated development in the SWISH Area of Interest in 2021-2022, with consequent large increases in reserves, production and revenue. Figure 5.

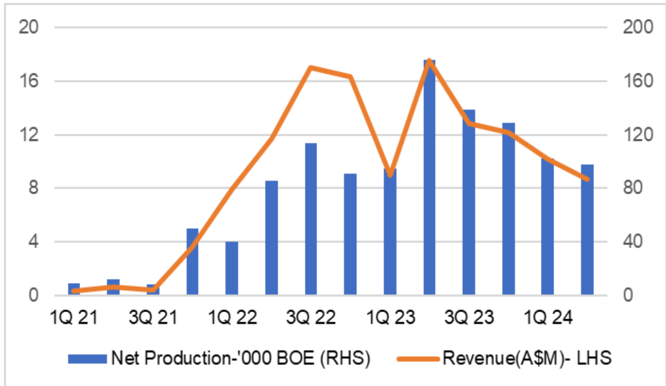
The knowledge gained from this initial program informed the "Flames Maroons" field development (FMDP). This project commenced in February 2024, and is nearing completion, and is expected to lift production significantly from 4Q 2024.

Figure 4: SWISH area of Oklahoma



Source: BRK

Figure 5: Net production and revenue



Source: MST Access from BRK reports

2024 Flames-Maroons Development Plan (FMDP) is on track

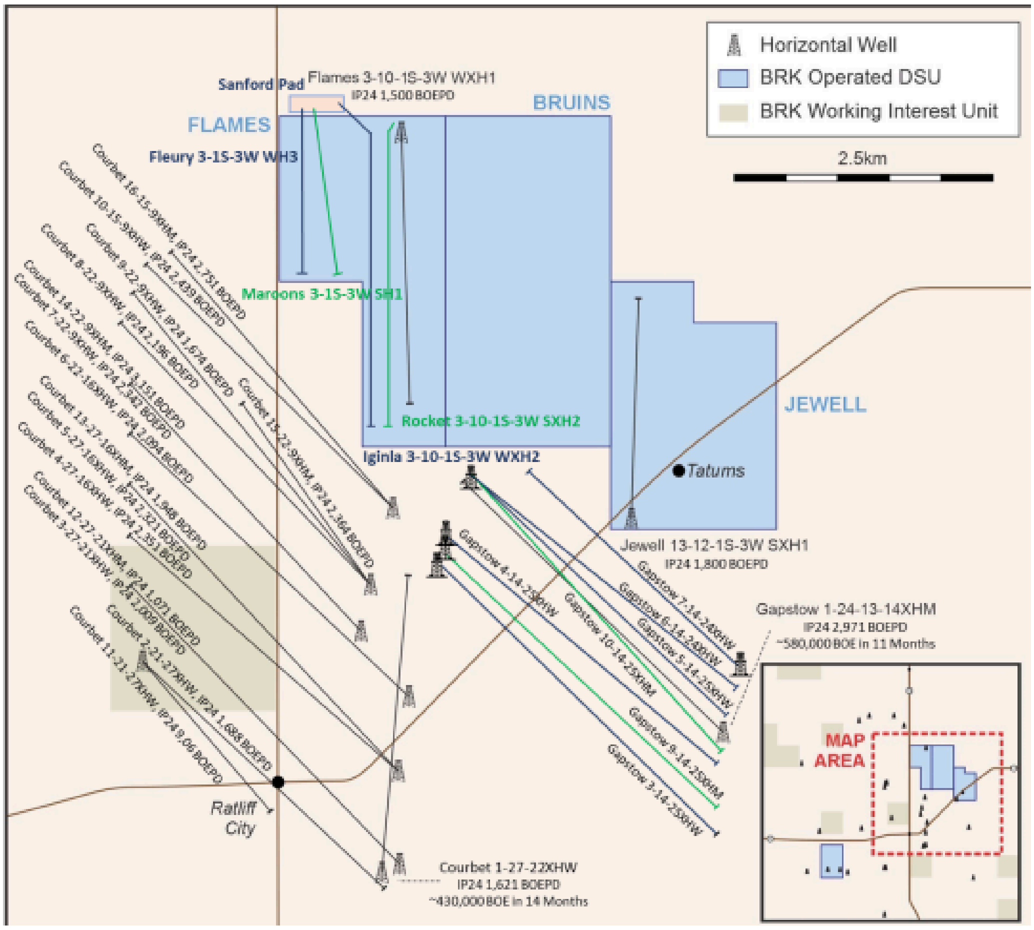
- Four well development is nearing completion at the Flames-Maroons development (FMDP) in SWISH Area of Interest, which is located in the southern part of the greater SCOOP area.
- Targets a lift in total production to 2500BOEPD in 4Q 2024.
- Targets lift in revenue to US$70M, and NPAT US$26M, in FY2025.

In February 2024, BRK embarked on a the FMDP development.

The FDMP is 4 wells in the Flames and Bruin drilling units in southern area of the SCOOP play targeting the Woodford Shale and Sycamore limestone. The wells are named **Fleury, Maroons, Iginia and Rocket**. BRK's confidence in this field development is bolstered by excellent results from Continental Resources "Courbet" development in leases adjacent to BRK's Flames DSU.

Three of these wells were drilled from a single well-site, the existing Sanford pad and a fourth from the pre-existing Flames pad, in the first half of CY24. This approach minimises site preparation, and mobilisation times between wells.

Figure 6: Location of FMDP wells in BRK's SWISH Area of Interest



Source: BRK

The drilling phase began in February 2024 and has been concluded ahead of time, and is a major technical achievement. The drilling of the four wells to total depth took 115 days, ahead of a planned 136 days, without any HSE incidents. **In total these four wells have drilled a collective 19Km of rock**, which is an engineering feat of little interest to investors, in our view, but nevertheless these ultra-long lateral sections drilled and fracced are the basis for strong production rates anticipated from such wells. Results from other companies in surrounding acreage are for initial production rates in the 1000-3000BOEPD range. In this context, BRK's production guidance appears conservative, in our view.

Importantly the successful completion of the ultra-long laterals removes drilling risks, and successful fraccing of the Rocket well increases our confidence BRK can deliver the current project.

Commensurate with the well completions, the surface facilities required to handle the production are complete. Photos in figures 7 and 8 were taken in June 2024. Fig 7 is the kit to handle gas. Figure 8 shows tanks to store oil and produced water. This is significant surface production infrastructure, which is a once-off investment, and fully funded from operating cashflow and cash to date.

Figure 7: FMDP gas handling & metering

Source: Stuart Baker, site attendance, June 28 2024

Figure 8: FMDP: tankage for oil production

Source: Stuart Baker site attendance, June 28 2024

The bigger picture: what comes next.

The FMDP is a major engineering undertaking, and the successful execution of multiple long-lateral wells followed by leading edge fraccing, helps to de-risk the next growth phase.

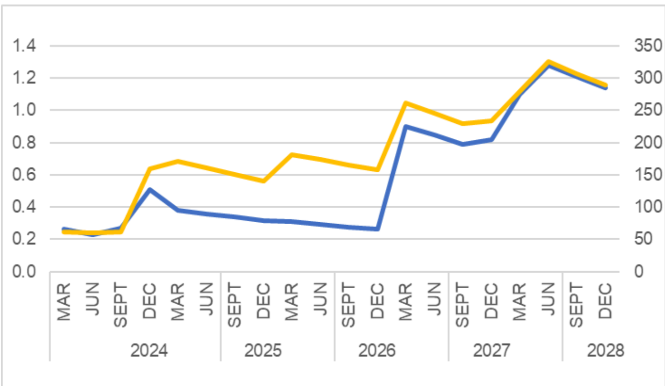
From CY2025, BRK are planning a 3-year, 16 wells development in its SWISH areas of interest.

BRK guides for an increase in production to 4500 BOEPD in FY2028. At a WTI oil price of US$70/bbl, this is forecast by BRK to add incremental revenue of US$104M and net income of US$51M in FY2028

Our forecasts are for operating cashflows to exceed US$80M in 2027, as the SWISH project unfolds. These are shown in figures 9 and 10.

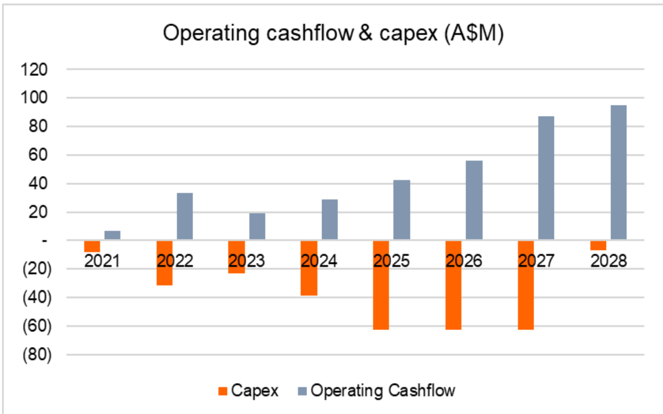
In parallel will be significant capex (US$126M) which BRK plan to fund from existing cash, organic cashflow from existing production, augmented by a small debt facility.

Figure 9: Quarterly production (Oil RHS, kbbls. Gas, LHS, Bcf)



Source: MST Access

Figure 10: Annual cashflow projections (A$M)



Source: MST Access

Report prepared by MST Access, a registered business name of MST Financial services ABN 617 475 180 AFSL 500 557.

Valuation: A$0.057

Our valuation is a sum-of-parts derived from estimated cashflows from production of 2P oil and gas reserves. Refer to figure 9. It is unchanged

Our key assumptions are as follows:

- Realised oil prices of US$75/bbl in CY2024 and escalated at 2%p.a. beginning in January 2025.
- Benchmark Henry Hub gas prices of US$3.0/MMBtu in CY 2024, and then escalated at 2% p.a, beginning in January 2025.
- Base case production model which delivers 2P reserves to 2040 of 11.6 MMBOE (27 BCF of gas, and 7MBBLS of oil).
- Cashflows are discounted from Q4 2024 at an after tax WACC of 10% p.a.
- US$ cashflows are converted to AS$ using a spot rate of AU$ 67c.
- Cash and balance sheet at June 30, 2024.

Valuation Methodology: NPV of 2P reserves

We forecast future cashflow from production of 2P oil and gas reserves out to 2040. We risk the cashflow at 75% to incorporate geological, drilling, engineering and operational uncertainty.

Capture of the 2P reserves at all fields will require ongoing field management and drilling of additional wells in future years. We make assumptions regarding the timing, and capital cost of future development, in line with BRK guidance over-lain by our judgement.

Figure 11: Sum-of-part valuation

Asset Value (A$M)	Method	Unrisked	Risk	Risked
Core E&P assets		A$M	%	A$M
SCOOP 2P	DCF to 2040	333	75%	250
Other				0
Core E&P Value		333		250
Net cash	30-Jun-24	21.8		22
Debt		0		0
Other financial assets		2		2
Total asset value		357		274
Shares on issue		4778		4778
Value Per share		**0.075**		**0.057**

Source: MST Access

Risk factors

- Commodity prices and markets. Brookside is a price taker for its oil and gas products and these prices are volatile and driven by global factors.
- Brookside is a fossil fuel producer, and these companies are under pressure from climate activists. So far, these risks are not onerous in the USA compared to other parts of the world, but the risk of doing business is increasing.
- Costs for exploration and development are increasing in general.
- Exploration and appraisal drilling even in well-known areas like the Anadarko Basin, is risky and not all wells will succeed.
- Production and reserves. Fields my decline faster than expected, and future drilling to recover 2P reserves may not succeed and lead to downside risks to future production and reserves.
- Access to capital. BRK may require debt and equity to invest in growth however debt funding is becoming harder to source and there is risk that BRK cannot raise funds for ongoing development, or that funding costs become onerous.

Glossary of terms and other explanatory notes

DSU. This is "development Unit" or "drilling spacing unit" is the geographical area in which initial oil or gas is drilled and produced from a geological formation listed in the spacing order. The spacing unity communitizes all interest owners for the purpose of sharing production from oil and gas wells in the unit. A spacing order establishes the size of the unit, names the formations included in the unit, divides the ownership for the formations into the "royalty interest". and the "working interest".

SCOOP. South Central Oklahoma Oil Province.

STACK, Sooner Trend Anadarko Basin Canadian and Kingfisher Counties.

SWISH. Sycamore and Woodford in South Half of SCOOP

W.I. Working interest is the percentage ownership interest in a lease

Net interest. (Net Revenue interest or net production interest) is the portion or revenue, production and reserves after deducting State, Federal and other applicable taxes and royalties.

Net reserves versus gross. Net reserves are those remaining to the interest owner after allowance for state or federal royalties.

IP24. The peak flow rate from a well over a 24-hour period

IP30. The average flow rate over the first 30 days pf production

AOI. Area of interest

Personal disclosures

Stuart Baker received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

Company disclosures

The companies and securities mentioned in this report, include:

Brookside Energy (BRK.AX) | Price 0.010 | Valuation 0.057;

Price and valuation as at 16 September 2024 (not covered)*

Additional disclosures

This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Brookside Energy (BRK.AX)

Other disclosures, disclaimers and certificates

Methodology & Disclosures

MST Access is a registered business name of MST Financial Services Limited (ABN 617 475 180 “MST Financial Services”), which is a limited liability company incorporated in Australia on 10 April 2017 and holds an Australian Financial Services Licence (AFSL 500 557). This research is issued in Australia through MST Access, which is the research division of MST Financial Services. The research and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by MST Access is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a financial product you should read any relevant Product Disclosure Statement or like instrument.

ECM and corporate advisory services: MST Financial Services provides equity capital markets (“ECM”) and corporate advisory services through its capital markets division, MST Capital Markets (“MST Capital”). MST Capital provides these services to a range of companies including clients of MST Access. As such, MST Capital may in the future provide ECM and/or corporate advisory services and, accordingly, may receive fees from providing such services. However, MST Financial Services has measures in place to ensure the independence of its research division is maintained, including information barriers between its Capital Markets and Research teams. In addition, neither MST Access, nor any of its research analysts, receive any financial benefit that is based on the revenues generated by MST Capital or any other division of MST Financial Services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently certified. Opinions contained in this report represent those of MST Access at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results and estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of liability: To the fullest extent allowed by law, MST Access shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained in this report. No guarantees or warranties regarding accuracy, completeness or fitness for purpose are provided by MST Access, and under no circumstances will any of MST Financial Services’ officers, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the content.

General Advice Warning

MST Access Research may not be construed as personal advice or recommendation. MST Access encourages investors to seek independent financial advice regarding the suitability of investments for their individual circumstances and recommends that investments be independently evaluated. Investments involve risks and the value of any investment or income may go down as well as up. Investors may not get back the full amount invested. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer’s securities or investments. The information contained within MST Access Research is published solely for information purposes and is not a solicitation or offer to buy or sell any financial instrument or participate in any trading or investment strategy. Analysis contained within MST Access Research publications is based upon publicly available information and may include numerous assumptions. Investors should be aware that different assumptions can and do result in materially different results.

MST Access Research is distributed only as may be permitted by law. It is not intended for distribution or use by any person or entity located in a jurisdiction where distribution, publication, availability or use would be prohibited. MST makes no claim that MST Access Research content may be lawfully viewed or accessed outside of Australia. Access to MST Access Research content may not be legal for certain persons and in certain jurisdictions. If you access this service or content from outside of Australia, you are responsible for compliance with the laws of your jurisdiction and/or the jurisdiction of the third party receiving such content. MST Access Research is provided to our clients through our proprietary research portal and distributed electronically by MST Financial Services to its MST Access clients. Some MST Access Research products may also be made available to its clients via third party vendors or distributed through alternative electronic means as a convenience. Such alternative distribution methods are at MST Financial Services’ discretion.

Access & Use

Any access to or use of MST Access Research is subject to the Terms and Conditions of MST Access Research. By accessing or using MST Access Research you hereby agree to be bound by our Terms and Conditions and hereby consent to MST Financial Services collecting and using your personal data (including cookies) in accordance with our Privacy Policy, including for the purpose of a) setting your preferences and b) collecting readership data so we may deliver an improved and personalised service to you. If you do not agree to our Terms and Conditions and/or if you do not wish to consent to MST Financial Services’ use of your personal data, please do not access this service.