Brookside Energy

BRK.AX

A research platform of MST Financial

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Higher Reserves Underpin Growth

Reserves up, production to follow

- **The 2024 FMDP development was very successful and delivered reserves growth with 1P +22%, and 2P +7% to 12.4MMBOE (57% liquids), and 268% Proved developed reserves replacement**
- **Plans in 2025 are for another three wells providing momentum into 2026.**
- **Nil debt and A$20M in cash and receivables. 2024 EBITDA ~A$19M forecast to reach ~$30M in 2025.**

Brookside is active in Oklahoma's Anadarko Basin where ultra-long horizontal wells have delivered excellent results. In September 2024 the 4-well FMDP project was completed driving strong production growth and increases in 1P and 2P reserves, and 268% of production replaced.

The company's plans for 2025 are (1) three more 10,000 foot horizontal wells in the SWISH acreage and (2) pursuit of additional acreage or working interests. The first well in this year's campaign, at "Bruins" is underway.

Brookside is in a strong financial position with nil debt, no hedging, and $20M in cash and receivables. 2024 EBITDA was A$19M on A$47M of revenue demonstrates low cost, cash-flow positive operations which provide organic funds to invest in growth activity.

Investment Thesis

Strong growth in production, revenue and cashflow over the outlook. The successful 2024 4-well FMDP de-risks the geology and technology and justifies ongoing development of the SWISH area acreage. In 2025, BRK plan three wells, funded from cashflow.

Brookside has the capability to deliver. The balance sheet and operating cash-flows can fund a step-up in activity. The executive team has proven it has the range of technical and commercial skills to drill and produce.

Brookside is undervalued on DCF cashflows from expected production of 12.35MMBOE 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: A3.01 (Unchanged)

MST's valuation is an NPV of 2P production. DCF and 2025 cash-flow multiples of <2X evidence undervaluation in the equity market. The EV/BOE at the 1P and 2P level is A$3.7/BOE and A$2.1/BOE respectively, which is very low for profitable cash flow positive production.

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.

Equity Research Australia

Energy

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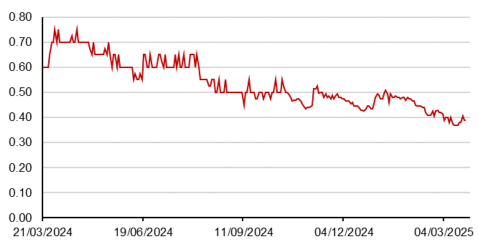
Brookside is a Perth-based oil and gas exploration and production company, with operations focused in the Anadarko Basin, Oklahoma, USA

Valuation	**A$3.010** *(unchanged)*
Current price	**A$0.395**
Market cap	**A$38M**
Cash on hand	**A$11.4M**

Upcoming Catalysts / Next News

Period	
1Q25	Completion of Bruins well
1Q25	Production and revenue updates
2H25	Two more SWISH area wells

Share Price (A$)



Source: FactSet, MST Access

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

Brookside Energy	BRK.ASX
All figures in A$	

Market Data	Y/E Dec 31	A$
Share price	A$/sh	0.395
Shares on issue	M	95
Other capital	M	0
Market Cap	A$M	38
Net Cash	A$M	11
Enterprise Value	A$M	26

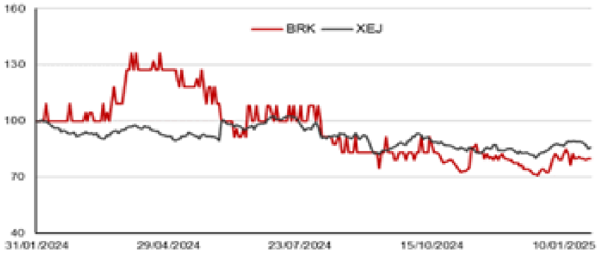
Investment fundamentals	FY23A	FY24A	FY25E	FY26E	FY27E
EPS	17	3	18	26	38
PE	2.3	13.4	2.2	1.5	1.0
DPS	0	0	0	0	0
Yield-%	-	-	-		
EV/EBITDA	1.0	1.4	0.8	0.6	0.4
Revenue/BOE (A$)	54	52	51	56	44
EBITDA/Sales-%	52%	38%	46%	49%	51%
Net cash (debt)	26.2	11.4	16.0	27.7	58.1
ND/(ND+E)	NM	NM	-14%	-18%	-32%

Realised prices	FY23A	FY24A	FY25E	FY26E	FY27E
Gas- A$/ Mcf	3.85	3.34	4.19	4.29	4.40
Oil-A$/bbl	117	121	112	113	116
A$/US$ rate	0.70	0.67	0.63	0.63	0.63
Production (Net)	**FY23A**	**FY24A**	**FY25E**	**FY26E**	**FY27E**
Gas- Bcf	1.21	1.15	1.21	1.08	3.35
Liquids (MMbbl)	0.35	0.34	0.54	0.71	0.99
MMBOE	0.55	0.53	0.74	0.89	1.55
% liquids	63%	64%	73%	80%	64%
BOEPD	1515	1448	2026	2441	4248

Reserves (MMBOE)	1P	2P
Gas- BCF	12.5	31.5
Liquids	2.9	7.1
Total BOE	5.0	12.4
% oil	58%	57%

SoP Valuation	Method	Unrisked	Risk	Risked
SCOOP 2P	DCF- 2P	276	100%	276
Other		0		0
Core E&P Value	A$M	276		276
Net cash		11		11
Debt		0		0
Other financial assets		0		0
Total asset value	A$M	287		287
Shares on issue		95.46		95.46
Value Per share	**A$**	**3.01**		**3.01**

Chart



Income statement	FY23A	FY24A	FY25E	FY26E	FY27E
Gas Revenue	4.7	3.0	5.2	4.6	14.9
Oil Revenue	42.1	29.7	57.8	77.0	111.1
Revenue	53.5	49.4	67.3	88.5	121.2
Production costs	22.1	24.8	29.9	38.4	52.5
Corporate costs	3.8	6.0	6.4	7.0	7.0
Other	0.0	0.0	0.0	0.0	0.0
EBITDA	**27.6**	**18.6**	**31.0**	**43.1**	**61.7**
Exploration write-offs	0.0	0.0	0.0	0.0	0.0
Depreciation	10.9	15.1	13.4	17.8	24.8
EBIT	**16.7**	**3.5**	**17.5**	**25.4**	**36.9**
Finance charges	0.0	0.7	0.0	0.0	0.0
Net Profit Before Tax	**16.7**	**2.8**	**17.5**	**25.4**	**36.9**
Tax	0.0	0.0	0.0	0.0	0.0
Net Profit	**16.7**	**2.8**	**17.5**	**25.4**	**36.9**
Impairments	0.0	0.0	0.0	0.0	0.0
Statutory income	16.7	2.8	17.5	25.4	36.9
Share count at EOP (M)	4765	96	96	96	96

Cash flow	FY23A	FY24A	FY25E	FY26E	FY27E
Receipts	51.6	45.6	64.9	85.6	118.5
Payments	-33.3	-25.6	-36.3	-45.4	-59.5
Interest & other	0.7	1.0	1.0	1.5	1.3
Net cash from ops.	19.0	21.1	29.6	41.7	60.3
Exp & Dev capex	-22.3	-36.8	-25.0	-30.0	-30.0
Acquistions / other	-1.0	0.0	0.0	0.0	0.0
Net investing	-23.3	-36.8	-25.0	-30.0	-30.0
Equity issue/ repurchase	-3.1	-0.1	0.0	0.0	0.0
Debt Issue /(repay)	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Net cash Financing	-3.1	-0.2	0.0	0.0	0.0
Increase in cash	-7.7	-14.8	4.6	11.7	30.3
Cash at EOP	26.2	11.4	16.0	27.7	58.0

Balance sheet	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	26.2	11.4	16.0	27.7	58.0
Recievables / Inventory	3.9	8.4	11.4	14.4	17.4
Exploration & evaluation	32.4	33.0	33.0	33.0	33.0
Production assets	32.6	73.9	85.5	97.7	102.9
other	0.0	1.0	26.0	56.0	86.0
Total Assets	**95.1**	**127.7**	**171.8**	**228.8**	**297.3**
Payables	11.4	24.2	34.2	44.2	54.2
Debt	0.0	0.0	0.0	0.0	0.0
Other	0.3	11.1	6.4	6.4	6.4
Total liabilities	11.7	35.3	40.6	50.6	60.6
Total Equity	83.4	92.4	131.3	178.2	236.8

Source: MST Access estimates

Reserves up, production and cashflow outlook positive

For an oil and gas producer, reserves are the core value driver. Over the past three years, BRK has built it's oil & gas reserve base cost-effectively. In 2024, the company replaced its PDP production by 268%, at a replacement cost of ~US$16/BOE. This higher reserve, and 2025 drilling plans underpin higher production and cash flow over the outlook, with this activity funded from existing cash reserves and cash flow from operations.

2024 results demonstrate another profitable year, although lower than the 2023 due to lower oil prices. The contribution from the four FMDP wells completed late in 2024 lifted gross production to ~4300 BOEPD at year end (from~2300BOEPD a quarter prior) and this will drive revenue and cashflow higher in the current year. At year end 2024, BRK had $20M cash and receivables, nil debt, and no hedging.

Figure 2: Financial results

Key figures		2021	2022	2023	2024
Sales Revenue	US$	12.9	54.0	53.5	46.9
EBITDA	US$	-1.0	22.4	27.6	18.5
NPAT	US$	-2.6	15.1	16.7	2.8
EPS (cents-A$)	A$	-4.3	25	17	3

Source: MST Access, from BRK financial reports.

BRK is generating strong cashflow from operations, and guides for ~US$19M (~A$30M) EBITDA in 2025 which will fund planned drilling activity.

2025 outlook: three more wells

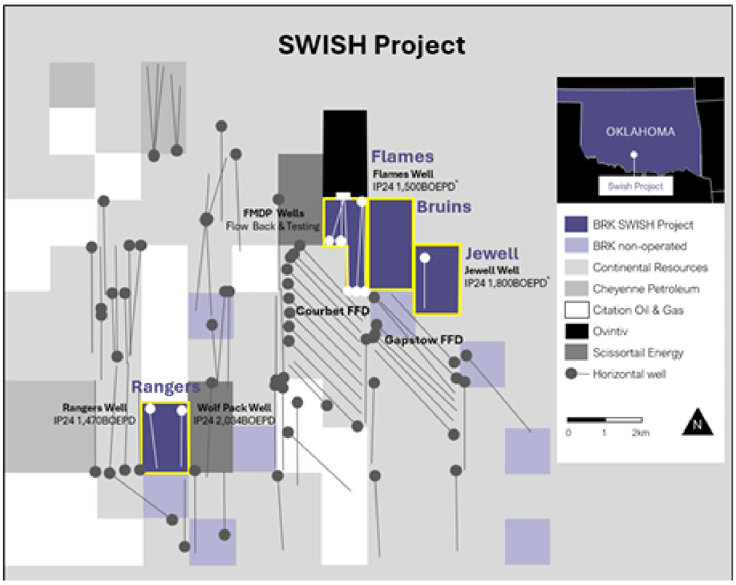
Exiting 2024 with higher production, BRK is in a strong position to continue developing its SWISH area and other acreage. BRK has two broad strategic objectives for 2025.

The first objective is to drill three 10,000 foot lateral horizontal wells, to replicate the success of the 2024 FMDP program. The first well in this campaign, at the "Bruins" location is underway. The Bruins well is located in acreage between the FMDP and Jewell wells and these offset wells minimise reserves and reservoir risk. Refer to figure 3.

The gross cost for the Bruins well is ~US$11m (BRK net share ~US$7.7M). BRK expect to increase its working interest compared to previous wells, to ~70%. The well is planned to deliver 640,000BOE over 5 years (100% basis) of which ~53% is liquids. At current oil and gas prices this represents a ~US$30M revenue opportunity over five years. Two more wells are planned later in 2025. On 18 December 2024, BRK guidance for this activity was 2025 EBITDA of US$18M, at a WTI oil price of US$75/bbl, and Henry Hub gas price of US$2.5/MCF.

The second objective is to acquire additional acreage and increase its working and net revenue interests in existing acreage, where possible.

Figure 3: Bruins well location: adjacent to 2024 FMDP wells



Source: BRK corporate presentation

Revenue momentum over the outlook

BRK's 4Q2024 revenue of ~US$21M (on 100% basis) is the company's highest revenue quarter and sets a "run-rate" for the outlook, onto which increased production is expected to build.

Our forecasts for FY25 and FY26 impound growth from three new wells, with the first of these underway at the Bruins location.

The three wells planned in CY2025 flow into our 2026 estimates.

Reserves and resources: upgraded and PDP replacement 268%

Reserves and resources at year end 2024 are in figure 4.

The 2024 FMDP program added 1.4MMBOE (net) to proved producing reserves (PDP) offsetting production of 0.525MMBOE, for a replacement ratio of 268%.

1P and 2P BOE reserves rose by 22% and 7% respectively, with the liquids content 57%.

Figure 4: Reserves and resources at 31 December 2024

Category	Oil (Mbbls)	NGL (Mbbls)	Gas (Bcf)	BOE	% Inc on pcp
Proved producing	0.74	0.74	7.09	2.65	50%
Proved, non-producing	0.01	0.00	0.02	0.01	10%
Proved, undeveloped	0.76	0.66	5.41	2.32	0%
Total proved (1P)	1.50	1.40	12.52	4.98	22%
Probable	1.84	2.36	18.98	7.37	-1%
Total 2P	3.34	3.76	31.50	12.35	7%

Source: BRK Reserves and resources report, as at 31 December 2024

Balance sheet: strong

At year end 2024, BRK's key balance sheet metrics were:

- Cash and receivables of A$20M.
- Nil debt.
- Credit facility of US$25M, undrawn.
- Nil hedging of oil and gas streams.

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Valuation: $3.01 (unchanged)

Our valuation is a sum-of-parts derived from estimated cashflows from production of 2P oil and gas reserves. Refer to figure 5. Key assumptions are:

- Benchmark WTI of US$70/bbl for 2025, lower than our previous estimate of US$73/bbl. USA and global oil prices have weakened since our previous report.
- Benchmark Henry Hub gas price revised up to US$4/MMBtu (from US$3.3/MMBtu) and in line with spot prices and the HH forward curve.
- Base case production model which delivers 2P reserves to 2040 of 12.4MMBOE (31.5 BCF of gas, and 7.1MBBLS of liquids), an increase on previous estimates of 11.2MMBOE.
- Cashflows are discounted from 2Q 2025 at an after tax WACC of 10% p.a.
- US$ cashflows are converted to A$ using a spot rate of A$-US$ of 63c.
- Cash at 31 December 2024 of A$11M.

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

Figure 5: Sum-of-part valuation

Asset Value (A$M)		Method	Unrisked	Risk	Risked
Core E&P assets			A$M	%	A$M
SWISH-2P		DCF to 2040	276	100%	276
Other acreage					0
Core E&P Value			276		276
Net cash		31-Dec-24	11		11
Debt			0		0
Other financial assets			0		0
Total asset value			287		287
Shares on issue			95		95
Value Per share			**3.01**		**3.01**

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.

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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.

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Price and valuation as at 01 April 2025 (not covered)*

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