

31 October 2016

## Quarterly Report for the period ending September 30, 2016

### Highlights

- ✓ Brookside core **STACK Play holdings now stand at ~400<sup>i</sup> acres**
- ✓ **US\$3.5 million STACK-A Joint Venture to fund drilling and completion costs** and provide equity holders with maximum exposure to upside from reserve growth and unlevered future cash flow in full field development
- ✓ **Elected to participate in its first horizontal well (Strack 1-2-11XH well)** in the STACK Play (well to be operated by Marathon Oil, NYSE:MRO) with drilling and completion costs fully funded
- ✓ Entered into **STACK E&P Agreement to secure additional competitive advantage and to accelerate leasing and acquisition efforts** in the STACK Play.

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The Directors of Brookside Energy Limited (**ASX:BRK**) (**Brookside** or the **Company**) are pleased to present the Company's quarterly activities report for the period ending September 30, 2016.

During the September quarter the Company continued to pursue a strategy aimed at building value per share by leveraging the expertise, experience and contacts of the Board and its partner and manager of US operations Black Mesa Production LLC (**Black Mesa**).

As previously announced, the Black Mesa team has identified an opportunity to secure a position in the world class STACK Play in Oklahoma. The Company is capitalizing on a short window in which to build a material premier asset position in this high-margin repeatable play.

### STACK-A Joint Venture

During the September quarter the Company announced that it had reached an in-principle agreement for a joint venture between Merchant Funds Management Pty Ltd (or nominees) (**Merchant**) and Brookside's wholly owned subsidiary BRK Oklahoma Holdings, LLC (**BRK Oklahoma**). The proposed joint venture will be formed and funded for the purpose of drilling and completing oil and gas wells in the STACK Play (**STACK-A Joint Venture**).

Under the proposed joint venture, BRK Oklahoma is to contribute to the STACK-A Joint Venture its non-operated working interest in certain horizontal oil and gas wells to be drilled within BRK Oklahoma's leasehold within the STACK Play (**Joint Venture Wells**). Merchant is to provide up to US\$3,500,000 in loan funding to the joint venture to fund BRK Oklahoma's share of drilling and completion costs on up to ten (10) Joint Venture Wells in the STACK play. Merchant will also have a first right of refusal over all further financing of the joint venture.



The Joint Venture Wells will be drilled, completed and operated by experienced and well funded United States based operators who are the most active and successful in the core of the STACK Play.

The unique structure of the proposed joint venture enables Brookside to capture value and deliver growth through the addition of cash flow, oil and gas reserves and importantly very substantial future development potential from proven undeveloped locations without dilution that would come from equity capital at this point in the Company's life.

#### STACK Leasing Program

The Company also announced during the September quarter that the ongoing efforts of Black Mesa in the STACK Play had secured an additional ~150 acres, taking its non-operated working interest leasehold interests to ~200 acres. Post the end of the quarter, the Company announced that it had secured a further ~100 acres (non-operated working interest leasehold), taking its total holdings in the STACK Play to ~400 acres. The Company also flagged that it expects to capture additional core acreage prior to the end of this calendar year so that 100% of the capital available under the STACK-A Joint Venture can be fully deployed.

#### STACK Drilling & Completion Activity

During the quarter, the Company announced that it had elected to participate in its first horizontal well within its core STACK Play (non-operated working interest) leasehold acreage in Blaine County, Oklahoma. The Strack 1-2-11XH well, to be operated by Marathon Oil company (NYSE:MRO) (Marathon Oil) is permitted as an extended reach horizontal well with a total measured depth of 20,448 feet targeting the Meramec formation. BRK Oklahoma holds 12.5 acres in the relevant spacing unit. BRK Oklahoma's share of estimated drilling and completion costs for this well are to be funded under the STACK-A Joint Venture.

#### STACK E&P Agreement

Post the end of the quarter, the Company announced that Black Mesa had entered into an Exploration and Participation Agreement (**STACK E&P Agreement**) with an Edmond, Oklahoma based private company with the aim of accelerating its leasing and acquisition efforts in the STACK Play.

The STACK E&P Agreement provides a framework for the rapid expansion of research and leasing efforts within an area of mutual interest (**AMI**) that covers the key counties of Blaine, Kingfisher and Canadian within the core of the STACK Play.

The agreement combines the substantial experience of the Black Mesa team with the well established network of the private company's senior executives who have a strong track record of successful acquisition and divestiture activity in the Mid-continent region, specifically in the STACK and SCOOP plays. This team has worked with some of the most successful first movers and operators in the STACK Play, including Continental Resources, Chesapeake Energy and Felix Energy (which was recently acquired by Devon Energy in a US\$1.9bn transaction) and as a result they have a unique knowledge base that is expected to provide a competitive advantage in leasing and acquisition efforts in the STACK play.



The combined efforts of both teams in the AMI are seen as critical in enabling us to stay ahead of the current and accelerating consolidation that is taking place in the STACK Play and to ensure that we can take advantage of the opportunities that remain in this highly competitive area.

Brookside expects this agreement to significantly enhance its capacity to maintain and increase momentum and capitalize on the short window in which to build a material premier asset position in this high-margin repeatable part of the STACK Play.

#### Non STACK Exploration & Production Activities

No exploration was conducted during the quarter on the Company's leasehold interests in Payne County, Oklahoma. There was no material production from the Company's leasehold interests during the quarter.

#### **CORPORATE**

During the quarter, the Company announced a placement to raise \$300,000 before costs via the issue of 25,000,000 new fully paid ordinary shares in the Company at \$0.012 per. The placement shares were issued under the Company's placement capacity.

Post the end of the quarter, the Company announced a further placement to raise \$600,000 before costs via the issue of 60,000,000 new fully paid ordinary shares at \$0.01 per share. The placement shares were issued under the Company's placement capacity.

Funds raised from these two placements will be used to fund the Company's on-going leasing campaign in the STACK Play and for general working capital purposes.

See Appendix 1. for details of the Company's oil and gas interests.

Yours faithfully,

**Loren Jones**  
Director and Company Secretary

For further information contact:

Loren Jones  
Brookside Energy Limited  
Tel: (+61 8) 6489 1600  
[loren@brookside-energy.com.au](mailto:loren@brookside-energy.com.au)



## **FORWARD-LOOKING STATEMENTS AND OTHER DISCLAIMERS**

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## **ABOUT BROOKSIDE ENERGY LIMITED**

Brookside is an Australian publicly held company listed on the Australian Securities Exchange (ASX:BRK). The Company was established in 2004 and first listed via an Initial Public Offering in October 2005. The Company has established deep and valued relationships in the oil and gas sector over the last 10 years through its successful activities in the oil and gas sector focused on the mid-continent region of the United States. Brookside's goal is to build value per share through a disciplined portfolio approach to the acquisition and development of producing oil and gas assets and the leasing and development of acreage opportunities.

Web <http://www.brookside-energy.com.au>

## **ABOUT BLACK MESA PRODUCTION LLC**

Black Mesa is an Oklahoma domiciled limited liability company established for the purpose of identifying and exploiting opportunities in the upstream oil and gas sector on-shore in the United States. Black Mesa was capitalized via an agreement between the Tulsa Equity Group, BRK Oklahoma (a wholly owned subsidiary of Brookside Energy Limited) and the Incentive Members of Black Mesa. Black Mesa is executing a returns-based, disciplined strategy directed at the acquisition of producing properties, lower-risk development drilling opportunities and larger scale entry level acreage plays/concepts. Black Mesa's is leveraging the extensive experience of its executive team and its Board with the latest technology and data sets that are available to identify and evaluate opportunities.

Web <http://www.blkmesa.com>

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<sup>i</sup> Includes non-operated working interest acreage (acquired pursuant to the Drilling Program Agreement between BRK Oklahoma and Black Mesa) that is subject to final title clearance and closing and the RA Minerals Royalty Acreage acquired pursuant to the Acquisition Program Agreement between BRK Oklahoma and Black Mesa.

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**Appendix 1 – Schedule of Oil and Gas Interests**

COUNTRY	STATE/REGION	INTEREST ACQUIRED OR DISPOSED OF DURING THE QUARTER	TOTAL ACRES	WORKING INTEREST
USA	Payne County, Oklahoma	Nil	465 gross (282 net)	100%
USA	Blaine County, Oklahoma	Nil	~100 acres	Royalty Interest
USA	Blaine County, Oklahoma	~250 acres	~300 acres	Working Interest

## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

**Name of entity**

Brookside Energy Limited

**ABN**

15 108 787 720

**Quarter ended ("current quarter")**

30 September 2016

<b>Consolidated statement of cash flows</b>	<b>Current quarter (Sept 2016) \$A'000</b>	<b>Year to date 3 (months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(677)	(677)
(b) development	-	-
(c) production	-	-
(d) staff costs	-	-
(e) administration and corporate costs	(171)	(171)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	0	0
1.5 Interest and other costs of finance paid	(0)	(0)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (ATO GST refunds)	97	97
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(751)</b>	<b>(751)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

<b>Consolidated statement of cash flows</b>	<b>Current quarter (Sept 2016) \$A'000</b>	<b>Year to date 3 (months) \$A'000</b>
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>-</b>	<b>-</b>
<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	300	300
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(42)	(42)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>258</b>	<b>258</b>
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	619	619
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(751)	(751)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)	258	258
4.5 Effect of movement in exchange rates on cash held	(8)	(8)
<b>4.6 Cash and cash equivalents at end of period</b>	<b>117<sup>1</sup></b>	<b>117<sup>1</sup></b>

<sup>1</sup> Subsequent to the end of the quarter the Company issued and allotted 60,000,000 Shares to raise \$600,000 before costs.

5. <b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	117	619
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>117<sup>1</sup></b>	<b>619</b>

<sup>1</sup> Subsequent to the end of the quarter the Company issued and allotted 60,000,000 Shares to raise \$600,000 before costs.

**6. Payments to directors of the entity and their associates**

	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	93
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Payment of director's fees, rent and corporate administration expense.

**7. Payments to related entities of the entity and their associates**

	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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**8. Financing facilities available**

*Add notes as necessary for an understanding of the position*

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

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**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.