



Brookside Energy – Speculative Buy

Trading at discount to other acreage deals...

Price: A\$0.011 | Price Target: \$0.08 | ASX: BRK | 13 November 2017

In our view, based on a comparative acquisition analysis of acreage deals in the STACK/SCOOP (Figure 2), BRK is currently trading on ~US\$5,000 per acre (based on its current market cap) – a significant discount to the weighted average of ~US\$16,000 per undeveloped acre. We see no reason why this should be the case and believe the market is currently not realising the potential for a re-rating in BRK's share price to reflect the gap. We recommend Speculative Buy.

- We believe the following investment drivers are worth further consideration by investors:

- 1) BRK and its operational partner in the US, Black Mesa Production, LLC ("Black Mesa") bring significant industry and geological/oil and gas expertise as well as significant local knowledge of Anadarko Basin Stack and Scoop. In our view, management as well as Black Mesa are well placed to execute and deliver on BRK's strategy.
- 2) Based on a comparative acquisition analysis of acreage deals in the STACK/SCOOP (Figure 2), BRK is currently trading on ~US\$5,000 per acre (based on its current market cap) – a significant discount to the weighted average of ~US\$16,000 per undeveloped acre.
- 3) Initial production results from first non-operated wells have exceeded pre-drill expectations.
- 4) Ability of BRK's tier one operators to develop acreage, which is funded by the Drilling Joint Venture with Merchant Funds Management.
- 5) BRK has a US\$3.5m Drilling Joint Venture with Merchants Funds Management which provides shareholders with potential upside from reserve growth and unlevered future cash flow in full field development.
- 6) Risk is minimised to BRK shareholders in our view as the Drilling Joint Venture funds 100% of BRK's share of drilling and completion costs and is repaid from net proceeds of funded wells. After the payout, the joint venture partner receives 25% NRI.

- **BRK currently owns a portfolio of assets... which includes: #1 STACK/SCOOP Leasehold Acreage, Oklahoma.** The Black Mesa team are pursuing a leasing program BRK aimed at identifying and securing working interest acreage within core areas of the STACK/SCOOP Plays. To date these on-going efforts have seen the Company reach its initial target of 1,280 leasehold acres. **#2 STACK Minerals Acreage (Blaine County, Oklahoma).** BRK's wholly owned subsidiary BRK Oklahoma Holdings, LLC (BRK Oklahoma) acquired oil and gas royalties over ~100 acres, across four sections, in Blaine County, Oklahoma (RA Minerals Royalty Acreage). **#3 Payne County, Oklahoma.** BRK holds a leasehold interest in ~465 gross acres (~282 net acres) in Payne County, Oklahoma. The leases are located in a part of northern Oklahoma, which is an area with a long history of hydrocarbon production from the Cherokee Platform east of the Anadarko Basin and north of the Arkoma Basin.

Investment Thesis

BRK's share price will be driven by the following factors:

- Based on a comparative acquisition analysis of acreage deals in the SCOOP/STACK (Figure 2), BRK is currently trading on ~US\$5,000 per acre (based on its current market cap) – a significant discount to the weighted average of ~US\$16,000 per undeveloped acre.
- Initial production results from first non-operated wells have exceeded pre-drill expectations.
- Management's ability (as well as Black Mesa) to execute and deliver on BRK's strategy.
- Ability of BRK's tier one operators to develop acreage, which is funded by the Drilling Joint Venture with Merchant Funds Management.

Research – Sales & Trading

- BRK has a US\$3.5m Drilling Joint Venture with Merchants Funds Management, which provides shareholders with potential upside from reserve growth and unlevered future cash flow in full field development.
- Risk is minimised to BRK shareholders in our view as the Drilling Joint Venture funds 100% of BRK's share of drilling and completion costs and is repaid from net proceeds of funded wells. After the payout, the joint venture partner receives 25% NRI.

We see the following key risks to our investment thesis:

- **Limited operating history + execution risks.** Since incorporation BRK has incurred losses and has a limited historical operating performance. There is no guarantee that the BRK will be a commercial success.
- **Reliance on key personnel.** BRK's operational success will depend on the continuing efforts of senior executives as well as its relationship with Black Mesa Production. Any loss or inability to attract senior executives may have an adverse effect on BRK.
- **Potential debt and equity raising to fund acquisitions.** BRK currently has no debt on its balance sheet, ~US\$2.5m in liquidity and remains loss making on the NPAT line. BRK may be required to source further funding (of which equity would be the most likely avenue).
- **Valuation.** BRK currently derives no earnings. The valuation of BRK is based on relative undeveloped acreage valuations. We do not factor into current valuations that BRK's management team can commercialise its oil and gas acreage – we see this potential upside as a free upside option at BRK's current share price.

Company Description

Brookside Energy Ltd (ASX: BRK) is an Australian ASX listed oil and gas company with ownership of acreage in the Anadarko Basin Plays (Oklahoma, US). BRK was established in 2004 and listed via an Initial Public Offering in October 2005. BRK's aims to acquire and develop oil and gas assets and exploit leasing and development of acreage opportunities.

Details of the Company

Company Overview. In the long term, BRK's strategy is to acquire undeveloped acreage at wholesale rates in region of the Anadarko Basin Plays, Oklahoma, US and capture an uplift in valuation from delivering Proved Reserves of oil and gas.

In the shorter term, BRK's acreage is re-valued as initial development is undertaken. As a basis for comparison, undeveloped acreage in the Blain County, Oklahoma was recently sold for US\$19,000 per acre.

Portfolio of Assets – Trading at a discount to similar assets in the region...

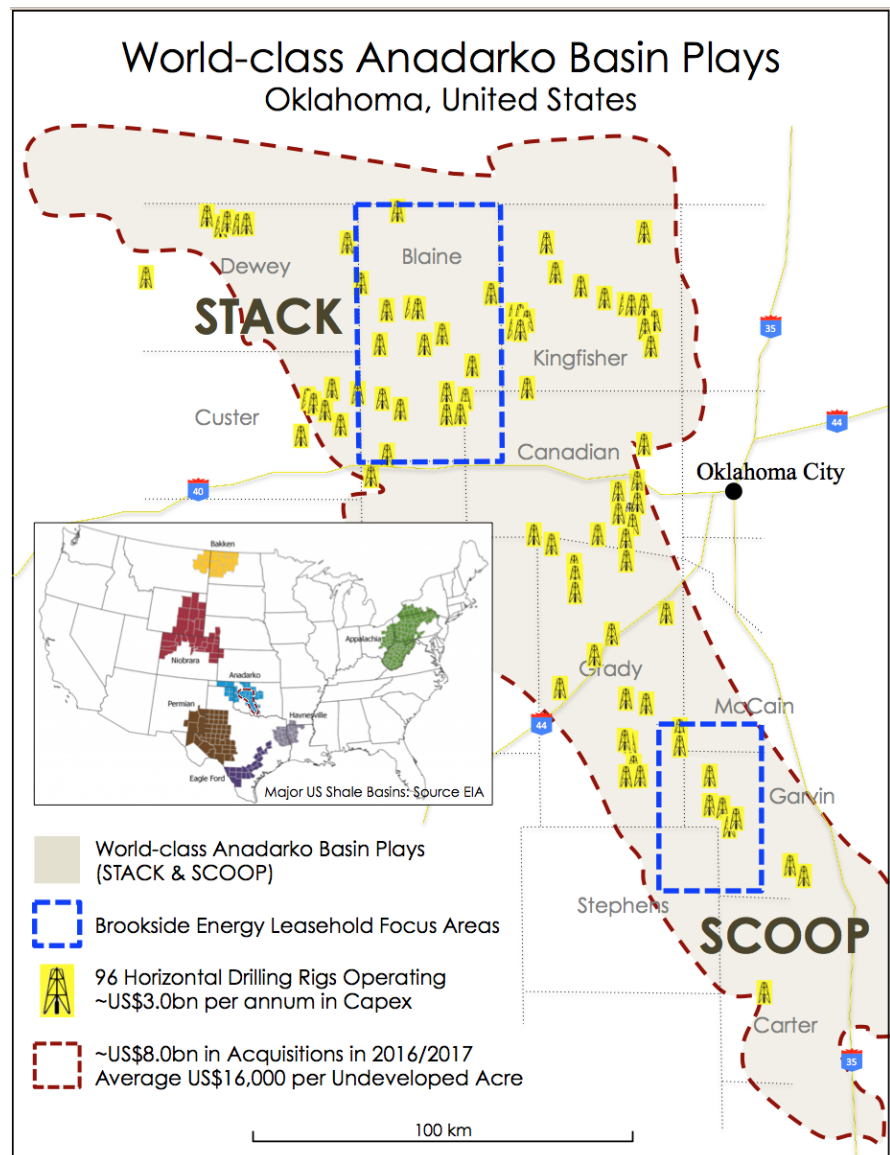
In our view, based on a comparative acquisition analysis of acreage deals in the STACK/SCCOP (Figure 2), BRK is currently trading on ~\$5,000 per acre – a significant discount to the weighted average of ~\$16,000 per undeveloped acre. We see no reason why this should be the case and believe the market is currently not realising the potential for a re-rating in BRK's share price to reflect the gap.

BRK currently owns a portfolio of assets, which includes:

Research – Sales & Trading

#1 STACK/SCOOP Leasehold Acreage, Oklahoma. The Black Mesa team are pursuing a leasing program BRK aimed at identifying and securing working interest acreage within core areas of the STACK/SCOOP Plays. To date these on-going efforts have seen the Company reach its initial target of 1,280 leasehold acres. Several operators in these plays are conducting successful increased density pilots (in and around BRK's core focus areas). According to management, it is worth noting that *"Devon Energy Corp's (NYSE:DVN) recently announced Alma spacing pilot which tested five wells per section across a single interval in the upper Meramec, delivering 30-day production rates averaging 1,400 oil-equivalent barrels (Boe) per day per well, of which 60% was light oil"*.

Figure 1: Stack Leasehold Acreage, Oklahoma



Research – Sales & Trading

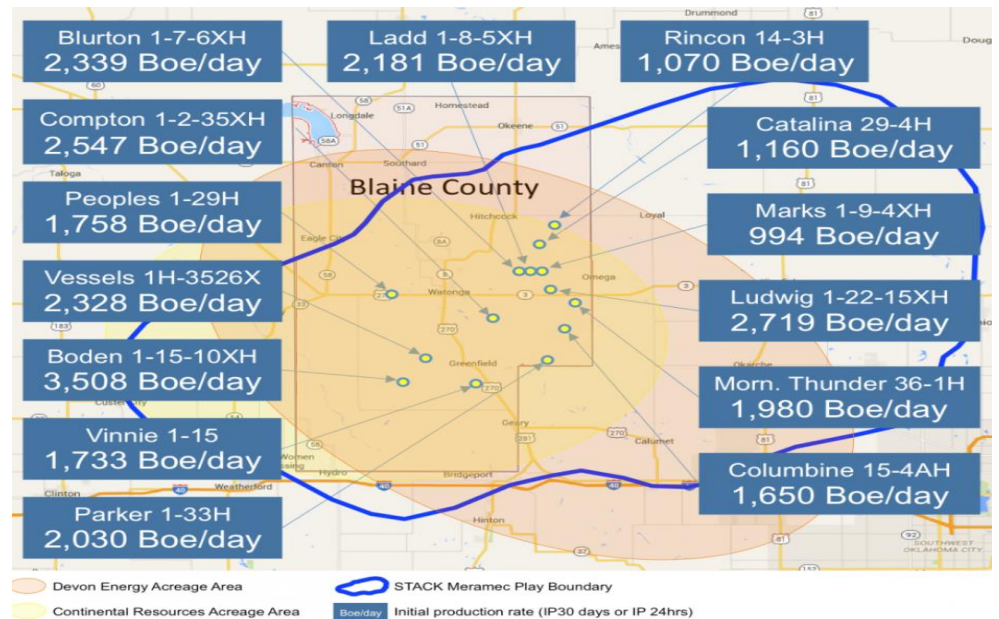
Figure 2: Comparative Acquisition Analysis

Date announced	Buyers	Sellers	Play	Transaction Value (\$m)	Proved Reserves Val (\$m)	Current Production (Mboe/d)	% Liquids Reserves (Proved)	Reserves (\$/Boe)
16/08/2017	Silver Run Acquisition	Alta Mesa Holdings LP	STACK	\$2,486.00	\$715.00	\$20.80	69%	\$4.97
8/08/2017	Shadow Creek	Continental Resources	STACK	73	--	--	>50%	--
31/03/2017	Teton Range LLC	Vitruvian Exploration III	STACK	97	67	2.1	64%	--
22/03/2017	Gastar Exploration Inc.	Undisclosed Seller	STACK	51	10	0.3	49%	--
24/02/2017	Chesapeake	Range Resources Corp	STACK	26	--	--	>50%	--
10/02/2017	SandRidge Energy	Red Mountain Energy LLC	STACK	Undisclosed				
13/12/2016	Gulfport Energy Corp	Vitruvian Exploration II LLC	SCOOP	1850	750	30.5	33.0%	3.93
19/10/2016	Red Bluff Resources	Operating LLC Gastar Exploration Inc.	STACK	61	5	0.2	59.0%	--
30/09/2016	Travis Peak Resources	Baha Resources LLC	SCOOP	70	--	--	50.0%	--
2/08/2016	Casillas Petroleum Corp	Continental Resources Inc.	SCOOP	281	16	0.6	32.0%	--
28/07/2016	Cornerstone Petroleum Resources LLC	Rimrock Resource	SCOOP	38	15	0.5	55.0%	--
28/07/2016	Rimrock Resource	Merit Energy	SCOOP	150	62	2.1	55.0%	--
15/07/2016	Warwick Energy Group	Dale Oklahoma LLC	STACK	157	37	1.2	75.0%	--
20/06/2016	Marathon	PayRock Energy LLC	STACK	888	168	9	>50%	--
5/05/2016	New field Exploration	Chesapeake	STACK	470	50	3.8	55.0%	--
28/04/2016	Triumph Energy Partners LLC	Range Resources Corp	STACK	75	21	0.8	17.0%	--
21/04/2016	Casillas Petroleum Corp	Chesapeake	SCOOP	106	--	--	>50%	--
29/03/2016	Titanium Exploration Partners LLC	Vanguard Natural Resources LLC	SC/ST	280	280	8	50.0%	--
6/12/2015	Devon Energy	Felix Energy LLC	STACK	1900	300	9	70.0%	--
31/10/2015	Vitruvian Exploration III LLC	Millennial Energy Partners	STACK	40	22	0.8	53.0%	--
Sep-15	Devon Energy	Valpoint Energy	STACK	Undisclosed				
Aug-15	New field Exploration	Maverick Brothers Resources	STACK	Undisclosed				
		Total Metrics	Wtd.					
			Avg:	\$1,487	\$425	14.6	56%	\$4.52
		STACK Metrics	Wtd.					
			Avg:	\$1,509	\$368	11.4	64%	\$4.97
		SCOOP Metrics	Wtd.					
			Avg:	\$1,250	\$570	22.8	36%	\$3.93

Source: industry and public announcements

Research – Sales & Trading

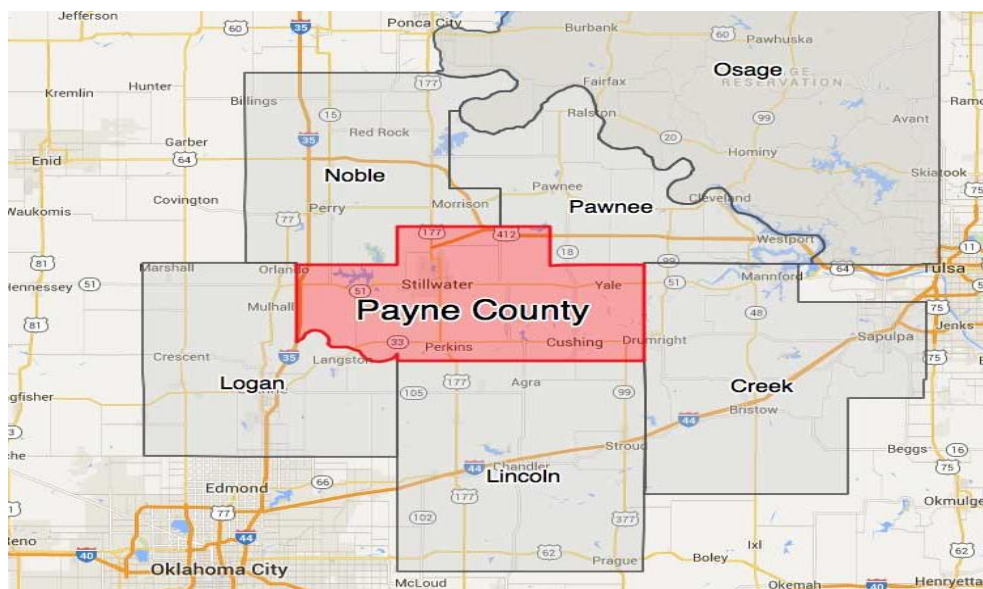
Figure 3: STACK Minerals Acreage (Blaine County, Oklahoma)



#2 STACK Minerals Acreage (Blaine County, Oklahoma). BRK's wholly owned subsidiary BRK Oklahoma Holdings, LLC (BRK Oklahoma) acquired oil and gas royalties over ~100 acres, across four sections, in Blaine County, Oklahoma (RA Minerals Royalty Acreage). The RA Minerals Royalty Acreage is located in STACK Meramec Play within a core focus area that has been identified by the Black Mesa Production, LLC (Black Mesa) team and which is currently subject to active development through horizontal drilling. According to BRK's management team, *"The Black Mesa team identified the area as highly prospective for productive Meramec, with ~450 feet of gross thickness and excellent reservoir qualities... currently there are at least 20 rigs in operation and a number of large (well-funded) US listed E&P Companies active (including Devon Energy, Marathon Oil, Newfield Exploration, Continental Resources and Cimarex Energy)... the STACK Meramec Play is one of a select few in the US that remain economical at today's prices..."*.

Research – Sales & Trading

Figure 4: Payne County, Oklahoma



Source: Company

#3 Payne County, Oklahoma. BRK holds a leasehold interest in ~465 gross acres (~282 net acres) in Payne County, Oklahoma. The leases are located in a part of northern Oklahoma in an area with a long history of hydrocarbon production from the Cherokee Platform east of the Anadarko Basin and north of the Arkoma Basin. The region has adequate access to a pipeline, processing and refining capacity as well as experienced service companies providing exploration, drilling and production expertise

Research – Sales & Trading

Relationship with Black Mesa Production...

Black Mesa Production, LLC (“Black Mesa”) is BRK’s US partner and manager of its US operations. Black Mesa Production, LLC is a privately-held oil & gas exploration and production company headquartered in Tulsa, Oklahoma. Black Mesa was founded to pursue oil and gas drilling prospects and property acquisitions in the Mid-Continent Region of the US, (focusing on Oklahoma). Black Mesa board of directors includes BRK’s CEO, David Prentice. In our view, the relationship between BRK and Black Mesa is critical for BRK’s success. Black Mesa provides operational expertise in oil and gas for BRK. Key Black Mesa personnel include:

Bill Warnock (Chairman of the Board). Mr. Warnock is a registered professional engineer in both Civil and Petroleum engineering. During his career of over 40 years, he has founded and ultimately sold six different oil and gas E&P and marketing companies, and he also invented and patented three different processes related to oil and gas completions and production. Bill began his career with Exxon Company, USA in New Orleans in 1974 and later served as the Executive Vice President over Crystal Oil Company’s Oil & Gas division in the early 1980’s. Bill’s most recent start-up success was Brighton Energy, a natural gas E&P Company that he formed in 1997. He was the majority owner, president and CEO of Brighton until its sale in three parts to Unit Petroleum, Chesapeake Energy, and Mineral Acquisitions Partners in the fall of 2006. He held similar positions and previously founded Medallion Petroleum (1985), MGM Gas Marketing (1987), Inter-Coast Oil and Gas (1992), KCS Medallion Resources (1996), and Arapahoe Marketing (1997). He most recently co-founded and is the Chairman of Black Mesa Production, LLC located in Tulsa. Bill currently serves on a total of eight different private company and non-profit boards. He graduated magna cum laude from Auburn University as the valedictorian of his 1974 engineering class with a degree in Civil Engineering.

Chris Girouard (President & Chief Operating Officer). Mr. Girouard has over thirty years of experience in the oil & gas industry and is an expert in all aspects of petroleum land management. Mr. Girouard has successfully sold several oil and gas companies over a 22-year period that included Medallion Petroleum, Medallion Production Company and Brighton Energy, LLC.

John Schumer (Vice President Reservoir Engineering). Mr. Schumer has over fifteen years of experience in oil and gas exploration and development, most recently as Team Lead – Haynesville Shale at QEP Resources.

Lee Francis (Vice President Operations). Mr. Francis has over forty years of engineering and management experience in upstream and mid-stream operations. Mr. Francis served as the EVP of Operations and Marketing for Red Fork Energy, Inc. where he was responsible for all drilling, production and infrastructure projects related to the Mississippi Lime play.

Research – Sales & Trading

Brookside Energy Ltd Key Directors + Personnel...

BRK is led by an experienced Board and management team, which importantly encompasses the blended experience in finance, and in oil and gas exploration and production. We note the following key executives:

Michael Fry (Chairman of the Board). Mr. Fry holds a Bachelor of Commerce degree from the University of Western Australia. Mr. Fry has extensive corporate and commercial experience. Mr Fry is currently non-executive chairman of ASX listed companies, Technology Metals Australia Ltd, Norwest Energy NL and Challenger Energy Ltd.

David Prentice (Managing Director). David is a senior resources executive with 25 plus years domestic and international experience. David started his career working in commercial and business development roles within the resources sector working for some of Australia's most successful gold and nickel exploration and production companies. During the last 12 years David has gained international oil and gas exploration and production sector experience (with a specific focus on the Mid-Continent region of the United States).

Ms Loren King, (Non-Executive Director and Company Secretary). Ms King has worked in finance and administration roles with ASX listed companies, stock broking and corporate advisory services for the past 10 years. During this time she has gained invaluable experience in dealing with all aspects of corporate governance and administration, specialising in initial public offerings (IPO), project management and backdoor listings. Her strengths in corporate governance and compliance, transaction negotiation and management, merger and acquisition, IPO and private capital raising and business development have served several boards well. As well as being a Partner at and Company Secretary of the Cicero Group, Mrs King holds the positions of Non-Executive Director and Company Secretary at both Brookside Energy Limited and Blaze International Limited.

Research – Sales & Trading

Red Leaf Securities Pty Ltd is a Corporate Authorised Representative of BR Securities Australia Pty Ltd (AFSL 456663).

The material in this document may contain general advice or recommendations which, while believed to be accurate at the time of publication, are not appropriate for all persons or accounts. This document does not purport to contain all the information that a prospective investor may require. The material contained in this document does not take into consideration an investor's objectives, financial situation or needs. Before acting on the advice, investors should consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. The material contained in this document is for sales purposes. The material contained in this document is for information purposes only and is not an offer, solicitation or recommendation with respect to the subscription for, purchase or sale of securities or financial products and neither or anything in it shall form the basis of any contract or commitment. This document should not be regarded by recipients as a substitute for the exercise of their own judgment and recipients should seek independent advice.

The material in this document has been obtained from sources believed to be true but neither Red Leaf nor its associates make any recommendation or warranty concerning the accuracy, or reliability or completeness of the information or the performance of the companies referred to in this document. Past performance is not indicative of future performance. Any opinions and or recommendations expressed in this material are subject to change without notice and Banyan Tree is not under any obligation to update or keep current the information contained herein. References made to third parties are based on information believed to be reliable but are not guaranteed as being accurate.

Red Leaf and its respective officers may have an interest in the securities or derivatives of any entities referred to in this material. Red Leaf does, and seeks to do, business with companies that are the subject of its research reports. The analyst(s) hereby certify that all the views expressed in this report accurately reflect their personal views about the subject investment theme and/or company securities.

Although every attempt has been made to verify the accuracy of the information contained in the document, liability for any errors or omissions (except any statutory liability which cannot be excluded) is specifically excluded by Red Leaf, its associates, officers, directors, employees and agents. Except for any liability which cannot be excluded, Red Leaf, its directors, employees and agents accept no liability or responsibility for any loss or damage of any kind, direct or indirect, arising out of the use of all or any part of this material. Recipients of this document agree in advance that Red Leaf is not liable to recipients in any matters whatsoever otherwise recipients should disregard, destroy or delete this document. All information is correct at the time of publication. Red Leaf does not guarantee reliability and accuracy of the material contained in this document and is not liable for any unintentional errors in the document.

The securities of any company(ies) mentioned in this document may not be eligible for sale in all jurisdictions or to all categories of investors. This document is provided to the recipient only and is not to be distributed to third parties without the prior consent of Red Leaf.