

Following the success of its unique Oklahoma oil and gas acreage pilot-project, Brookside Energy's MD, David Prentice, was keen to talk about the concept and its bright future.

David, you're in oil and gas, and you're in real estate. What's the story?

David: It's an oil exploration concept that's not really well known in Australia. American oil and gas investors are, however, very familiar with it. It's been part of their exploration and production experience for decades and proven to be very profitable.

And the concept is . . . ?

David: It's a very simple one really. We are – fundamentally – a land and leasing business. Here's how it works: We look for undrilled oil exploration leases (we call it acreage) at the lowest price possible in the best and most promising locations we can find. Then we have some work completed on them (drilling) to prove up the oil and gas reserves (show what's in the ground oil and gas-wise and work out its value). Those newly discovered reserves become the catalyst that drives the revaluation of the acreage . . . in other words, making it more valuable.

What happens then?

David: We are in a position to sell and realise a return for investors if the price being offered is right.

Oh . . . so you don't aim to stay on and become an oil producer?

David: No, no - that's for others to do. We restrict ourselves to doing what we're expert at . . . that is, finding good ground at a low price, proving the oil is there and then selling the ground at a higher price. Others can go full steam at increasing oil and gas production. What we're interested in is – how shall I put it – 'acreage value appreciation'.

A classic case of 'buy low, sell high'.

David: Exactly! And the strategy works . . . just the same as it does for someone who – say – buys a very ordinary house, does it up and sells it for a profit. No house for us, though . . . we "do up" oil-bearing ground . . . or, as I've termed it, acreage.

O.K. You're right; it is a simple concept, or, as you've described it, a strategy.

I'd like you to take me through it, piece by piece, but, before you do, what kind of profit are we aiming at. . . I mean, what's possible? Why would it be worth anyone's while to be interested in a company following this kind of exploration strategy? Obviously, we're not dealing with bank interest-rate returns here. What's possible?

David: Good question! The answer's good, too. In the middle of last year – 2018 – we sold our first pieces of acreage - just a small package of ground. We had two things in mind which we wanted to verify. The first was to prove the validity of the strategy – the acreage acquisition, the drilling, the selling. Would the process work as we hoped it would and, secondly, would the return on investment – the ROI - make us a decent profit?

And . . . ?

David: No problem with the strategy. As expected, it works! In other words, it's viable.

The profit?

David: It was spectacular. We paid originally just US\$2,500.00 an acre for this acreage, and we sold it for just over US\$29,000.00 . . . per acre.

Really? That's . . . that's a profit of over 1,000 per cent. That's extraordinary!

David: Better than bank interest, I think.

Absolutely! . . . O.K. Well! Take me through the process. There are a few things I want to know. Let's start with, as you said earlier, these 'most promising locations.' Why Oklahoma?

David: That was an easy decision. We're in Oklahoma because it's home to the Anadarko Basin and that is where the oil is. The rates of return – the ROR – from leasehold properties within this province are superb. Its acreage quality is comparable to that from areas in the Permian Basin in Texas and New Mexico which itself is regarded as one of the most prolific oil and natural gas geologic basins in the United States.

That's the kind of area we want. It's no use looking for just average returns, as we are not into achieving average outcomes for my shareholders. The advantage for us is that Anadarko Basin's acreage prices aren't yet comparable to those in the Permian Basin, so, there's plenty of potential leverage.

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You're in Perth; it must be difficult to be on the spot to grab the opportunities in the Anadarko Basin as they arise. Time must be of-the-essence here.

David: Yes, you're right, but we have help. And it's top-shelf help. We've got an operational partner in the US, Black Mesa Production. They're predominantly Oklahomans . . . locals, in other words, and they're locals in depth – decades of first-class expertise in everything from land acquisition through reservoir engineering to oil and gas geology. No one on the ground knows more than they do about STACK and SCOOP.

"The excellent work from the Black Mesa team in Oklahoma has positioned us very well to capitalise on the next phase as we look towards the development of the Sycamore Woodford trend within our SWISH AOI."
David Prentice

STACK and SCOOP?

David: They're acronyms for the two major oil and gas plays in Oklahoma. We have leasehold acreages in both plays . . . and we're excited about both plays. You'll be hearing those names often over the coming months.

Something else to know, and it follows on from my previous question; you mentioned 'lowest price possible' as you chase these undrilled – and, consequently – unimproved leases. How are you able to buy them at . . . at bargain prices?

David: The credit here goes to the Black Mesa team. As I just pointed out, they know the plays *really* well, and know where to look. They have intimate knowledge of the acreage market. But, there's another thing, and you just mentioned it; the ground we pick up is largely undrilled, and consequently the leases are yet to be improved.

So . . . how much drilling do you do?

David: We're active drillers. Remember that the whole basis of our strategy rests on improving the value of the acreage. If we don't drill, we don't find oil or gas. If we don't find oil or gas, we – straight up – don't 'value appreciate the acreage'. End of story! Understand though, we don't typically have 100 per cent of the action in any one hole. We often have what's known as a working interest in the holes that are being drilled, i.e. a percentage of the action – and, therefore, the same percentage return from any discoveries. At one point in early 2018, for example, we participated in 28 wells being drilled – 26 of them being working interest wells with percentages ranging from 0.4 per cent to 31.1 per cent.

How successful has the drilling been?

David: Short answer . . . very! Longer answer – we wanted production rates of at least 1,500 BOED or Barrels of Oil Equivalent per Day. Those wells have bettered that number.

And that means that Brookside Energy has effectively become an oil-producer – temporarily, at least. As I said earlier, our game is finding unproved acreage, improving it by drilling and then selling it. Others can commit to doing straight oil production.

But by producing you're making money, and doesn't that give you the best exploration position, that is, self-funding your development? I mean, there's a bunch of juniors in Australia who would love to be selling product while they chased more payable ground.

David: Of course, . . . but let me tell you how good it is for us. The production numbers, as I just said, have been really strong. When we added them to the success of that first acreage sale, the overall result was terrific. That unique combination (acreage sale and production numbers) confirmed the oil and gas reserve potential of the 400-acre STACK Play holdings. That made that STACK Play such a useful pilot-study for what we are doing and why we have such confidence in our future operations. I mean . . . on the strength of it, we were able to issue a Maiden Reserve Report.

So soon? What did that report say?

David: We've proved up 12 point five million US dollars NPV so far in oil and gas reserves, with a potential return of nearly 38 million US dollars. We'll bring that to the surface, and nearly all the derived cash will go back into the business of acquiring top-level acreage.

When it comes the time to sell our leases, those solid production flows add cream to the cake of acreage appreciation. Our acreage in the STACK Play is now worth 30 thousand US dollars per acre - based on this reserve report.

So . . . do you entertain any reluctance to selling producing leases? You are after all making money with them.

David: True, but to answer your question, no! We harbour no reluctance at all. As I said, we have no long-term interest in being producers. Remember that our model is to find good acreage, improve it and sell it. In that regard, we're more like traders . . . we work according to that model, get our price and then we move on.

We've done *really* well so far, and that's why we are dead keen on taking our strategy to a much, much bigger operation.

SWISH?

David: Yes, SWISH. It's our (Brookside's) AOI (Area of Interest) in the SCOOP Play to the south of STACK. Our leasing campaign has put together a potential 6,000 acreage project. It's very exciting. We've done well with 400 acres (now worth \$30k per acre as mentioned); imagine the potential return on 6,000.

We know our strategy works. The pilot-study proved that. It's time to unleash it on SWISH. It's a cliché, I know, but . . . watch this space!

David, it's been a more than a pleasure to talk to you. Thanks for giving me your time. Good luck!

David: The pleasure was all mine...and thank you.

Guest columnist Owen Stickels is a professional speaker presentation and skills specialist practising for over 30 years.



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