Oil & Gas, and Oklahoma Real Estate

The Brookside Energy Connection
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David Prentice, Brookside Energy's MD, recently met with a group of the company's shareholders (SH) eager to ask him about Brookside's unique structural model and its rapidly developing future. He was happy to oblige.

SH: David, your various reports over the past few months make it clear to us that you've met certain elements within Brookside's business plan . . . significantly met, I think I should add. That's heartening for all BRK shareholders.
David: Glad to hear it.

SH: I'm sure you are. But . . . tell us what you feel are the most significant achievements over that time?
David: There are a couple of things . . . well, more than a couple . . . but two major achievements - one of them a function of the other. The major thing we are proud of is - basically - over the 19 months since we did that capital raise in April last year, we've been able run the business essentially through cash-flow. As you know, 'cash is king' in any business and ours is no different. It's that reliable cash-flow that has underpinned the second effect – the item that's a so-called function of the first – and that is that it's let us grow the asset base substantially over that period.

SH: Your 'asset base' is – I take it – the oil-rich acreage you are accumulating?
David: Exactly! We are really happy about that fact.

SH: But your efforts are not reflected in the share price, are they. That's both somewhat surprising and disappointing.
David: I agree! It's frustrating . . . frustrating! It's disappointing that, just at the moment, we're not trading anywhere near what we reckon to be our market value. But, you'll be pleased to know, that I'm not the least bit disheartened.

SH: No?
David: No, not at all . . . and I'll tell you why. There are a couple of reasons. The first one has to do with that capital raise. If you look at our peers, most of them . . . not all of them . . . have raised significant amounts of capital at a discount to where their share price was 12 months ago. For some of them – no names – their shares have been dramatically diluted, and share prices have dropped as a result. That's not pretty for shareholders. The operative phrase used just now was 'at a discount'. We didn't do that. Our capital raise, therefore, had no negative effect on our share price.

SH: What's the other reason?
David: The second one is simple and powerful . . . and at a fundamental level. We've been able to grow our asset base pretty substantially over that 19-month period. We're building the business.

SH: Can you give us some examples?
David: Sure! We've spent several million dollars on drilling and completing wells. Those wells are now properly on our balance sheet. They're responsible for the cash-flow that we see through the 5B statement. That cash-flow is now buying the acreage. It's the driver building the business.

SH: But that cash-flow is an after-effect, isn't it, David, from the capital raise you did 18 months ago? Didn't a lot of that money go firstly on your SWISH purchases?
David: Quite right! It did! We spent almost $5 million acquiring acreage in SWISH. It was money well spent. But, as I just mentioned, the cash-flow we've been able to generate from also spending on those wells is the financial icing on the cake. It's been able to fund a number of wells . . . the Bullard, Henry Federal, Boardwalk . .

> *"That cash flow is now buying the acreage. It's the driver building the business."*

SH: . . . the 4 well Centaur development?
David: . . . yep, the whole Centaur thing and Zenyatta and the Ringer Ranch wells. Best of all, we've now increased our SWISH acreage to approximately 2,500 acres . . . net! We are – to say the least – really proud of that. In total, we are very pleased with where we've been able to position ourselves to face the next 12 months or so.

SH: Does that mean that you don't see the need to raise cash in the short to medium term to fund your general operations?
David: Absolutely not. As I said earlier, the cash-flow runs the business. But, there's more to it, and it's something we've been constantly asserting to the market; one of the important aspects of the real estate model to develop our oil and gas assets is us having the ability to monetize our acreage at various points along the value chain. We don't have to wait until we get to the point where the entire NPV is reflected in the acreage sale price.

SH: You have some stops along the way?
David: We do! And if we get to one of them along that chain where we feel we can take something off the table and use it, we'll do that. We could roll that capital into further leasing – more acreage, in other words, or we could fund some drilling and well completion. That's the whole point about our business model; it provides us with real flexibility in the way we operate.

Does it work? Yes, it does. Look at the results! Over the last 12 months we have done particularly well; we've generated some very good returns. We'll retain our operational flexibility since we know that we can capitalise on its use in the future.

> *"Best of all, we've now increased our SWISH acreage to approximately 2,500 acres…net"*

SH: So, no foreseeable capital raising?
David: Well, as the adage goes, 'Never say never'. As I peer down future's runway right now, though, there simply isn't a need for it. But, having said that, if someone knocks on our door in a month's time to say that they've 5000 acres for sale in an area that we really like . . . and they want $500 an acre for it . . . I'd come back to you and your fellow shareholders very smartly to talk about how we could capture that opportunity.

SH: We'd be all ears, David, all ears. But can I get back to that value chain as you described it, and ask you to speak about some specific examples?
David: Certainly! The two most significant deals so far done in 2019 were firstly, an acreage swap with one of the fairly large players within the SCOOP acreage and the SWISH area-of-interest . . . the AOI. Acreages in that area-of-interest have enjoyed a substantial lift in their value over the past 12 months. We saw an opportunity that would be profitable for us. We traded some of our non- core acreage – which that large player saw as high value for them – for acreage we wanted. As a result of this transaction, BRK increased its position within our core operating leases by approximately 300 net acres, and received a cash injection of US$720,000.

SH: Good deal!
David: Indeed! Yes, we thought so, too. Now, the second transaction was the step-in deal with Stonehorse Energy (SHE). We sold 15.6% of our Bullard well and 2.3% of our Henry Federal well for US $1,150,000. Their value was not lost to us, however, because we retained approximately 5% equity in both those wells. Not only that, we also kept 100% of the Proved Undeveloped Reserves.

Let me mention again our model's flexibility. That first sale was undrilled acreage which had increased in value due to significant third-party leasing and drilling activity. We decided to take advantage of that fact to solidify our positions in a number of core operated drilling units. On top of that, we received a handsome cash injection. The second sale had us selling a portion of our Proved Producing Reserves in two excellent wells, whilst maintaining 100% exposure to the significant upside in Proved Undeveloped Reserves. We can further monetise those reserves at any time of our choosing.

SH: How?
David: Simple . . . either by selling them, or by participating in their full field development. We'd decide at the time how to monetise those reserves based on two conditions; firstly, how do we maximize our returns from the transactions, and secondly, what opportunities exist to reinvest those funds?

Participating in a full field development, for example, is precisely what we did in our Devon Energy operated Centaur Unit in the STACK. There we funded a small share – just a 0.3% working interest (WI) - in four development wells. It paid off really well, with a resultant average IP30 of between 1,500 and 2,000 BOE at 70% oil.

SH: Your information is really satisfying, David. Looking over Brookside's record, it seems you have had a 100% strike rate participating in successful wells.
David: Happily, yes.

SH: But . . .here's the thing; you seem to be reluctant to "shout that message from the roof tops", so to speak. Why is that?
David: (Laughs) . . . That's a deeply philosophical question. Look . . . one of the challenges of this business model is, of course, that we are not a traditional exploration and production (E&P) business. Fundamentally, we do NOT drill for production. We drill only to increase the value of our real estate.

Look at what could happen if we started to focus on monthly production reporting. For example, we might go through periods . . . sometimes prolonged periods . . . where we are not adding any new production. Gross output could decline and investors might see that and think, "Oh, my God, output's declining. What's going wrong?"

That might put them off.

We are trying to steer investors towards the real estate development approach, because we think that that is where the money lies. Production and cash-flow mean a lot in setting the value of the acreage – the heart of our operational model, rather than the short term income that they may provide. Although the production and subsequent cash-flow is very useful . . . it's funding our day-to-day operations, as you know. . . but, for us, it's not the main game. It's thin icing on a very big cake, and . . .

SH: . . .you're after the cake, right?
David: Exactly!

SH: Which circles us round to the share price again. What are your thoughts?
David: Look, I know people get frustrated about the share price. I confessed to feeling so earlier. It is, after all, the ultimate score board. But, look at any broker's report or industry commentator's analysis of just about any company's share price and you'll find that the day's price will NOT be the same one as offered by their opinions.

We've got our eye on that cake. If we do the work . . . and, as you've acknowledged in our conversation today, we do good work . . . the rewards will follow.

Don't worry . . . our day will come. Keep your cake knives handy.

Would you like to be part of the next Brookside Energy Connection?

Email us your interest and questions at
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