

#### Stock Data

Share Price:	0.88p
Market Cap.:	£6.13m
Shares in issue:	696.2m

#### Company Profile

Sector:	Oil & Gas
Ticker:	ZPHR
Exchange:	AIM

#### Activities

Zephyr Energy plc ('Zephyr', 'ZPHR', 'the Group'), formerly Rose Petroleum plc, is a junior oil and gas E&P company with a core focus on oil and gas interests in the Rocky Mountain region of the US. Its current strategy includes responsible resource development growth via the acquisition of near-term development and production opportunities located in prolific basins of the western region.

Website: [www.zephyrplc.com](http://www.zephyrplc.com)

#### 1-Year Share Price Performance



Source: [LSE](https://www.lse.com)

**Note: Past performance is not an indication of future performance.**

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## Zephyr Energy plc

Zephyr has released an update detailing its progress with the State 16-2 stratigraphic test well. Drilling & data acquisition has been completed significantly ahead of schedule, and the Group successfully secured 113 feet of continuous core in the Cane Creek reservoir, sidewall cores from seven shallower reservoirs, and open hole logs across the Paradox Formation. With data evaluation already underway, initial indications suggesting the presence of hydrocarbons across multiple reservoir intervals are expected to be supported by detailed reservoir analysis within the next 30 to 60 days. Integrating this with the Group's existing 3D seismic should substantially improve the Group's understanding of the regional geology and how best to target and test the natural fractures that exist in the play. This could represent an important step toward unlocking the value it believes to be inherent in the Paradox project and across the basin. Shareholders can expect to be updated with these results as they become available over the coming weeks.

### Exceeding expectations

Having concluded operations, it appears that Zephyr exceeded expectations on two key fronts. It first demonstrated that drilling to the Cane Creek can be executed on a faster, less costly basis than originally forecast, which bodes well for future development efforts and overall project value. Secondly, by securing not just continuous core, but also sidewall cores and sophisticated logs from at least eight different reservoirs on their acreage, the Group is well positioned to lower future drilling risk and potentially upsize resource estimates in the coming months. Furthermore, by utilizing a US government grant to fund much of the work to date, a future horizontal lateral from the State 16-2 wellbore will likely cost the Group less than half of what a production well in this area would typically require, assuming it elects to move forward with the horizontal lateral post data evaluation.

### Primary and secondary well objectives

The Group's primary objective was to drill and set casing at 6,437 feet measured depth in order to provide a host wellbore for a future horizontal side-track. Supported by a modern drilling rig, advanced tools and an experienced operations team, it achieved this goal within 13 days from spud and went on to reach a measured 9,745 feet total depth within 19 days. A 58% time reduction versus the historical well average in this part of the Paradox Basin, this suggests the cost of future development can be significantly reduced from earlier estimates and thereby improved overall potential value of the Paradox project for shareholders.

Its secondary objective was to acquire new data to improve the understanding of its Paradox acreage position. Approximately 113 feet of continuous whole core across the historically productive Cane Creek reservoir interval was successfully secured as part of a comprehensive data acquisition programme and has now been shipped for detailed analysis. Rotary side wall cores in seven shallower exploration targets were also recovered, along with high quality logs derived from gamma ray, neutron density, resistivity, formation lithoscanner and sonic wireline across the bulk of the Paradox Formation, all of which add significant new petrophysical information to the existing suite of geological data. Significantly also, hole conditions and well stability remained excellent throughout all operations.

### Planning for a horizontal lateral

Now that drilling and data acquisition operations are complete, the State 16-2 well will be temporarily plugged back at 6,437 feet total depth. This provides Zephyr (or a farm-

in partner) with the opportunity to economically re-utilise the existing wellbore as the side-track host from which a future horizontal appraisal well can be drilled. Planning for this horizontal lateral is already underway and will seek to target a series of features identified through existing high-quality 3D seismic data. In re-utilising the vertical portion of the well, Zephyr's Board has estimated the total costs of drilling a future horizontal appraisal well will be reduced from c.US\$6 million to c.US\$3 million. Should it be successful, the State 16-2 lateral would deliver first commercial production from the Company's Paradox project.

### Significant upside potential beyond Cane Creek

Zephyr's current Paradox acreage of c.25,353 acres is held through multiple leases with variable expiry dates. These are estimated to hold an approximate Net 2C contingent recoverable resources of 9.9 million barrels of oil equivalent ('mboe') in the Cane Creek reservoir alone, for which a Competent Persons Report ('CPR') prepared by [Gaffney Cline & Associates](#) in June 2018 estimated a net present value of approximately US\$50 million, using a flat oil price of US\$45 per barrel having applied a ten percent discount rate ('NPV<sub>10%</sub>'). Beyond this, however, its Board considers further substantial upside potential exists from multiple additional zones thought to be productive and that data secured from the State 16-2 well is expected to help further define. Together with geological analysis obtained from the initial drilling and reduced costs for a prospective horizontal appraisal well, this should be highly beneficial to ongoing funding/farm-in discussions of the Paradox Project. In this respect, it is important to note that the US Geologic Survey estimates a basin-wide, mean potential [1.2 billion barrels of oil equivalent](#) in the Cane Creek reservoir alone, indicating a substantial potential yet to be targeted. With tranches of grant funding being collected on schedule along with the equity funding totalling £2.25m (gross) secured on [2 November 2020](#), Zephyr appears to be sufficiently resourced with respect to pursuing value from both its Paradox Project and other strategic ventures. Considering the discounted valuation implied through the CPR, Zephyr shares potentially offer substantial upside to their present £6.1m market capitalisation.

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