

Stock Data

Share Price:	2.05p
Market Cap.:	£14.5m
Shares in issue:	709.4m

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

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

Last **Friday**, Zephyr released the latest in its recent run of very positive development and evaluations updates, as it progresses toward unlocking value from its Paradox acreage. Although the Group presently awaits initial core analysis from an independent laboratory, it confirmed early observations and assessment from the open hole logs that include positive indications of multiple stacked, continuous oil and gas plays, with evidence of hydrocarbon saturation across a majority of potential reservoirs. Further evaluation is now underway to calibrate this with the core data, which will enable more precise selection of additional zones that have the volumetric potential to act as viable targets, while also determining whether hydraulic stimulation can act as a viable reservoir drainage strategy. This will be integrated with Zephyr's existing 3D seismic data and natural fracture evaluation work. With delivery of the laboratory data anticipated in 'the coming days', the Board currently believes it will be able to reach a decision on whether to drill the side track lateral by the end of March. Anticipation of this, along with Zephyr's particularly positive interpretation of actions taken this past week by the Biden Administration, should lend further support to the share price.

Targeting oil on Zephyr's Paradox acreage

Zephyr is targeting [Cane Creek](#) oil-prone clastic reservoir zones. The fact that Friday's RNS release noted substantial 'drilling gas' shows had been observed across five of its reservoirs, including the prime Cane Creek target, should not be misinterpreted. It simply provides evidence of excellent hydrocarbon charge in zones that have been penetrated in the process of drilling. Both gas and oil zones routinely give off drilling gas but, given the comprehensive understanding gleaned from the surrounding wells along with Cane Creek's extensive production history, it appears clear that prospective oil will be the driver of future cash flows with any gas by-product being treated as an additional bonus.

Extensive log and core data analysis to determine next steps

The [State 16-2](#) well operations acquired extensive log and core data. While awaiting initial core analysis to be delivered from the laboratory, a number of significant early observations and considerations have been already derived from the open hole logs.

Twenty-one clastic reservoirs ('reservoirs') were penetrated within the Paradox Formation. Substantial drilling gas shows were observed across five of the reservoirs, including the prime target Cane Creek reservoir, with robust drilling gas shows also observed across a further ten. Log analysis suggests hydrocarbon saturation across the bulk of these, although such positive initial results will require further calibration with the acquired core data.

Core samples were acquired from twelve of the reservoirs, representing the first in situ core data from this part of the Paradox Basin. Draft petrophysical facies (i.e. porosity and permeability) analysis shows similar reservoir and source facies to offset wells in many of the reservoirs, including the nearby producing [Federal 28-11 well](#) and a vertical well from the [producing Cane Creek Field](#), which were also cored in the Cane Creek reservoir. Such results are consistent with offset wells and suggest the presence of a hydrocarbon-filled reservoir matrix and high Total Organic Carbon ('TOC') source rock intervals, which may also store hydrocarbons and act as another low permeability reservoir.

Overall, the results provide compelling evidence for the presence of stacked continuous oil and gas plays which could potentially be drained should viable natural fracture networks be identified or alternatively, artificial hydraulic stimulation completion techniques applied successfully. Further evaluation is underway to calibrate the log

data to the core data, in order to evaluate which of the additional zones have the volumetric potential to act as viable reservoir targets, and to determine whether hydraulic stimulation can act as a viable reservoir drainage strategy. Altogether, this should be able to generate a much better understanding of the overall scale and value of the prospective resource. This work will be integrated with Zephyr's existing 3D seismic data and natural fracture evaluation. Initial results from the laboratory analysis are expected to be delivered shortly, although a final decision on whether to drill the side track lateral will only be made once full results from all of the data acquired becomes available. The Board currently expects to be able to make that decision by the end of March, although given the amount of information/data being generated, shareholders might anticipate further updates in the meantime.

In an effort to remain at least one step ahead, Zephyr's team has already commenced the related detailed well design and planning work. It has also contracted to retain the services of the same experienced drilling operations team which successfully completed the vertical portion of the well in record time. Applications for the necessary permits required to drill the horizontal lateral leg of the well have also been submitted. The State 16-2LN-CC Application to Drill ('APD'), once granted, should allow Zephyr to fully test the commerciality of the Cane Creek reservoir with a goal of achieving near-term oil and natural gas production.

Positive interpretation of actions taken in the past week by the Biden Administration

Actions taken last week by the Biden Administration should serve to heighten interest in Zephyr's leaseholding. The release of an Executive Order halting the sale of new oil and natural gas leases on federal lands will be seen to stop new federal leasing for the foreseeable future. Importantly, this does not impact affect Zephyr's current leases, as a result of significant effort committed over the past eighteen months to solidify all existing federal leases covered by its 3D seismic data. Nor does not impede the issuance of new federal drilling permits. Shareholders may therefore benefit from the fact that replication of the Group's substantial, underdeveloped federal lease holdings has become much more difficult.

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 12 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\$93 million, using a flat oil price of US\$50 per barrel having applied a ten percent discount rate ('NPV_{10%}'). 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. Management is expected to shortly gain a much better understanding of the overall scale and value of its prospective resource, from which it will be able to evaluate multiple alternatives for its future commercial development. Such optionality will increase the attractiveness of the project for prospective strategic and industry partners, suggesting that the discounted valuation implied through the [CPR](#) continues to offer substantial upside to the Group's present £14.5m market capitalisation.

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