

Stock Data

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| Share Price: | 8.25p |
| Market Cap.: | £107.6m |
| Shares in issue: | 1,304.8m |
| 52 week high/low: | 8.777p/0.75p |

Company Profile

| | |
|-----------|-----------|
| Sector: | Oil & Gas |
| Ticker: | ZPHR |
| Exchange: | AIM |

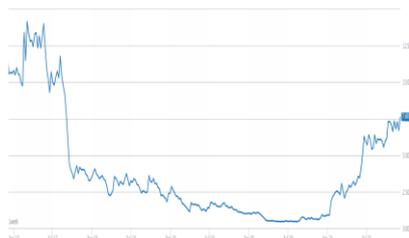
Activities

Zephyr Energy is an independent oil and gas E&P company with a strategic focus on carbon-neutral hydrocarbon development projects in the Rocky Mountain region of the US.

Company website:

www.zephyrplc.com

5-year share price performance



Source: LSE

Past performance is not an indication of future performance.

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Zephyr Energy PLC

After 23 days of production testing of the State 16-2LN-CC well located on Zephyr's Paradox Basin project in Utah, the company notes that the well has demonstrated stronger than expected production potential coupled with the capacity to drain a considerably larger hydrocarbon resource than expected at the pre-drill stage. The company is now proceeding with plans to equip the well and facilitate the sale of gas and liquids in the near future. The Directors believe the well could provide significant shareholder returns with not only a high liquids content but also substantial gas production and optionality on how it will be monetised.

During the recent test, the State 16-2LN-CC well averaged rate-constrained daily volumes of 716 boepd with highs of 1,083 boepd achieved with limited pressure drawdown. When the well is fully equipped and not rate constrained, Zephyr's initial simulation modelling indicates that plateau rates of 2,100 boepd could be possible which far exceeds pre-drill expectations. Test rates to date have been rate-constrained in order to minimise flow assurance issues from salt deposition in the well bore, an issue that is likely to be mitigated when the final completion equipment is installed.

Zephyr noted that daily average rate-constrained rate from the production test was 716 boepd (3.6 mmcfpd of gas and 160 bopd of liquids), with rate-constrained highs of 1,083 boepd (peak gas of 5 mmcfpd and peak liquids of 432 bopd). In addition, the liquid yield is high API condensate of approximately 60° API compared to c.39.6° API average for WTI benchmark oil. Such barrels are sought after in Utah as they can be blended with heavier, waxy crude from the nearby Uinta Basin and initial pricing indications suggest that liquids from State 16-2LN-CC could attract premium pricing over WTI.

We note with interest that production test data indicates that the State 16-2LN-CC has a single well potential Estimated Ultimate Recovery (EUR) of 2.65 mmbbl which is substantially higher than the pre-drill estimate of 0.85 mmbbl. With a large constituent of gas and attractive economics for the liquids, Zephyr has ascribed an NPV for the well of \$12.5m based on an average realised gas price of \$3.00 and \$65 per barrel of liquids and pay out in less than seven months. This oil price is quoted net of transportation and marketing costs, which at an assumed \$5/bbl, is less than expected at the pre-drill stage.

Zephyr is now assessing production export options as the company moves towards putting the well on full production. In particular, Zephyr has identified the sale of gas into nearby existing infrastructure in addition to co-locating a cryptocurrency mining facility onsite in a similar fashion to projects already underway in the Paradox Basin in Utah and the Williston Basin in North Dakota. (See page 2 for further details).

Following the completion of production testing of the well, Zephyr has also commissioned independent reserve consultant Sproule Inc. to complete a CPR (Competent Persons Report) which will cover Zephyr's project across the primary Cane Creek reservoir and eight additional overlying reservoirs. We note that the CPR is anticipated to be completed over the next two months and we would endeavour to publish further detailed analysis at this time.

Production testing has demonstrated that State 16-2LN-CC could be capable of producing at rates 2.5 times greater and recovering more than three times the volume of hydrocarbons than initially expected. With plans to place the well on full production as soon as possible and several options to monetise the significant volumes of gas, including providing energy for on-site cryptocurrency mining, we believe that State 16-2LN-CC represents a potentially highly profitable benchmark well for the long term development of the company's wider Paradox Basin acreage.

Additional information on the State 16-2LN-CC production test

Once again, we believe that Zephyr has demonstrated that State 16-2LN-CC production test has served as a benchmark and 'proof of concept' well for the wider development of the company's acreage in the Paradox Basin. In particular, the well has demonstrated the suitability of the acreage as a hydraulically stimulated resource play (HRSP).

In October 2021, the US Bureau of Land Management (BLM) approved 25,000 net acres of Zephyr's total 37,613 net acres position as a Federal Unit, called the White Sands Unit (WSU), to be operated by Zephyr with a minimum 75% working interest. This land position incorporates all of the company's leases covered by historic 3D seismic data, including the lease on which State 16-2LN-CC is located. This is likely to greatly improve Zephyr's strategic plans for the Cane Creek reservoir as State 16-2LN-CC has indicated that the company's lease area has very high reservoir pressures and better than expected reservoir permeabilities. Should there be a sufficient degree of reservoir connectivity across the WSU, there is significant potential for drilling considerably more wells targeting the Cane Creek reservoir across Zephyr's acreage both within the WSU and across the additional 12,613 acres outside the Federal Unit.

Zephyr also points to State 16-2LN-CC providing the data to test the exploration potential of the eight additional overlying zones that demonstrate similar petrophysical responses and movable hydrocarbons from side wall cores acquired in State 16-2. These zones are less well understood compared to the Cane Creek. However, we anticipate that the publication of a CPR by Sproule in the coming weeks will provide additional data on the exploration upside on Zephyr's acreage.

Routes to gas commercialisation

As noted previously, future gas production from State 16-2LN-CC can be tied into nearby gas export infrastructure and exported to customers. However, the company notes that an increasing number of upstream companies, including a nearby operator in the Paradox Basin, have elected to co-locate cryptocurrency mining facilities on site and sell gas production to these energy hungry enterprises.

Zephyr notes that the US now hosts 35% of all Bitcoin mining operations – a doubling of the country's position between May and July 2021 following a Chinese government crackdown on domestic Bitcoin miners. We believe that market for mining cryptocurrency is increasing rapidly and current estimates suggest that such activities consume vast amounts of power estimated at approximately 120 Terawatt hours per annum – equivalent to Argentina's yearly consumption.

In regard to Zephyr's position, crypto mining units the size of shipping containers which are mobile and highly scalable, can be placed on-site to plug into a readily available and abundant energy source. Although relatively early days, we expect that demand for more mobile options for crypto mining will increase significantly and with initial indications suggesting that suppliers could receive up to \$30/mcf of gas compared to current spot prices of \$4.50/mcf, the economic argument is solid. Additional to this, the sector has also mooted crypto mining as an environmental solution to the problem of operators flaring huge amounts of natural gas that cannot otherwise be monetised.

Zephyr has been approached by several parties in regard to providing energy for crypto mining and has undertaken a detailed review of the potential for co-located partnerships. As part of this process, the company has established an advisory board and is considering a near term test of a beta facility at the State 16-2 well site.

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