

Stock Data

Share Price:	4.70p
Market Cap.:	£73.35m
Shares in issue:	1,560.75m
52 week high/low:	8.78p/3.75p

Company Profile

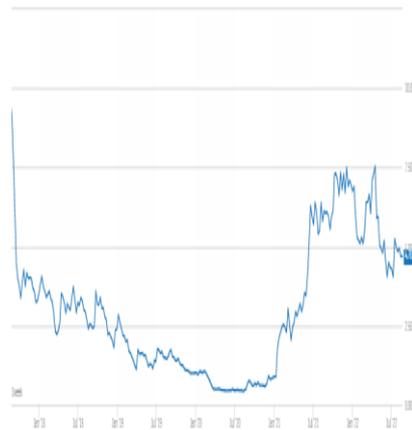
Sector:	Oil & Gas
Ticker:	ZPHR
Exchange:	AIM

Activities

Zephyr Energy plc ('Zephyr', 'the Group') 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.

www.zephyrplc.com

5-year share price performance



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

Past performance is not an indication of future performance.

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Zephyr Energy plc

Zephyr has announced an increase in its operated land position through the acquisition of an additional 1,920 acres (the 'new acreage') in the Paradox Basin, Utah (the 'Paradox'), while also providing an update on its State 16-2LN-CC operations and upcoming Paradox drilling programme. This prime new acreage, which is already located under Zephyr's 3D seismic, not only adds valuable locations and resources, but also secures an immediate opportunity to complete a longer and more effective lateral at the upcoming State 36-2 LN-CC well. The beneficial impact of the latter is expected to be delivered in terms of the well's production potential and its estimated ultimate recovery. In the meantime, management is focused on recommencing production testing at the State 16-2 LN-CC, for which operational preparations are largely complete with long lead time items well in process. With a planned three well drill programme on the Paradox project expected to commence in 2H 2022, (and with all funding being provided from the Group's Williston Basin non-operated assets), Zephyr appears set for a further period of intense activity in its run-up to 2023. This is likely to be key to the Group moving closer toward its ultimate goal of unlocking the next great unconventional onshore resource play in the US.

Acquisition of prime Paradox Basin acreage

Zephyr has increased its land position adjacent to its operated White Sands Unit (the 'WSU') through the targeted acquisition of 1,920 leased acres that are considered by the Board to have immediate development potential. This takes its total to 39,473 gross operated acres, the majority of which it holds as Operator with a 75% working interest. Although the transaction consideration was not disclosed due to commercial sensitivities, it was structured as a smaller upfront payment (satisfied through existing cash resources) with more generous royalties to follow in the event of future drilling success; their willingness to receive the lion's share of compensation on this basis, suggests the seller's similarly high level of confidence in a successful outcome. Zephyr has also agreed to use reasonable commercial efforts to drill at least one well across the new acreage prior to December 2023, a requirement which it believes will be satisfied by the upcoming State 36-2 LN-CC drill.

Zephyr plans to spud the State 36-2 LN-CC well as soon as final permits are received and a rig contract is secured, and permits have been proactively amended to reflect the full 10,000-foot completion. Highlights of the new acreage include:

Optimal location – Subject to approval from the US Bureau of Land Management ('BLM'), the acquired acreage is largely covered by Zephyr's existing 3D seismic, and directly borders its lease on which the planned State 36-2 LN-CC and 36-3 LN-C9 well pad is located. As such, it is close to pre-existing surface infrastructure in the form of a six-inch gas pipeline which traverses the leasehold.

Immediate drilling benefits - Subject to final regulatory approval, the new acreage will permit the proposed State 36-2 LN-CC to be fully completed across a 10,000-foot lateral length. This is expected to further enhance the well's forecast economics and estimated ultimate recovery, in conjunction with which, Zephyr recently amended its BLM application for a permit to drill (an 'APD') for the State 36-2 LN-CC well to reflect the enhanced completion design. Approval is expected to follow shortly.

Increased overall resources and drilling locations – Zephyr’s technical team estimates that the acquisition adds over 4 million barrels of oil equivalent of additional 2C net resources to Zephyr’s Paradox Basin position. It also substantially increases its Working Interest in an estimated 4 Cane Creek reservoir well locations adding an estimated 2.4 net wells assuming 2-mile lateral well lengths. Furthermore, it provides access to acreage that may host higher liquid yields than the previously drilled and tested State 16-2 LNW-CC well, similar to that observed at the nearby vertical Federal 28-11 well, along with additional potential in the overlying shallow clastic zones.

Based on a 10% discount rate (‘NPV-10’), the new acreage adds unrisks net present value, net to Zephyr, of approximately US\$40 million from the Cane Creek reservoir alone. This assumes success case outcomes from State 16-2 LN-CC flow testing and State 36-2 LNW-CC drilling & testing, while incorporating estimated economics for 2-mile laterals. Overlying reservoirs may add significant additional value in a success case.

State 16-2LN-CC Update

Zephyr continues to prepare for extended production testing of its successfully drilled and completed State 16-2 LN-CC well. All relevant applications have been filed and orders for long lead time items have been made in anticipation of recommencement of production operations this autumn, subject to final permit approval. The production test is designed to further investigate the flow potential of the State 16-2 LN-CC well, to add production data for use in surface infrastructure development decisions, and to test and develop flow assurance processes for the well.

Response to continued volatility in the crypto-currency markets

As announced on 7 June 2022, Zephyr planned to sell a small portion of gas produced from the State 16-2 LN-CC derived from the production test to a crypto-mining facility to be co-located on the well pad. Due to continued volatility in the crypto-currency markets, however, its Board has elected to further monitor pricing of crypto-mining equipment and facilities before proceeding and prior to committing to any related investment. To date, no Group funds have been expended on related equipment/facilities. In parallel, Zephyr continues to focus on commercial efforts regarding the acceleration of gas sales into nearby existing gas infrastructure.

Upcoming high impact drilling programme

Zephyr continues with extensive preparatory work related to its upcoming high impact drilling programme. The State 36-2 LNW-CC well, with a 10,000-foot lateral well targeting the Cane Creek reservoir, has been designated as the first of the three wells planned for drilling. Management has already updated its APD with the BLM to reflect the extended lateral and intends to proceed with drilling operations upon receiving Federal approval and securing a rig contract. All state level approvals related to the State 36-2 LNW-CC well have now been received.

CPR 2022 illustrated potential Contingent & Prospective Resources worth well in excess of US\$1 billion

Zephyr’s active land management strategy appears to be delivering a defensible and growing portfolio of development opportunities, something which is increasingly difficult to replicate in today’s regulatory and political environment. Meanwhile, management is focused on recommencing production testing at the State 16-2 LN-CC, for which operational preparations are largely complete and long lead time items already in process. The test will allow for the sale of liquid volumes and, most critically, allow for data generation which will help it evaluate the most effective options for infrastructure development.

Publication of the Group’s Competent Person’s Report (‘CPR’) 2022 on 26 April 2022, highlighted Zephyr’s substantial remaining potential in the Paradox Basin. While the range in values illustrated in Sproule’s report presently remain very wide and recognising that there are still significant underlying technical/operational risks to be surmounted, Zephyr’s management and exploration team have demonstrated a high level of intuition along with the capacity to meet and optimise such challenges through carefully calculated process. It now aims to build on its current knowledge and track record in order to further accelerate the value growth from its existing portfolio. Plans to commence a drilling programme of three fully-funded Cane Creek wells in 2H

2022 will enable further delineation and increase overall understanding of the Paradox asset base. Management's goal is to have assessed potential upside and determined the first of a series of follow-on steps before the end of 2022, followed by increases in all reserve and resource classes during 2023.

Significantly in this respect, funding for the next phase of development of the Paradox Project will be provided from the Group's Williston Basin non-operated assets. These delivered Q2 2022 sales volumes that averaged 1,856 boepd (up from c.1,600 in Q1 2022), for which nearly half of the next two years' production has already been hedged at an average of US\$92.70/bbl. Quarterly revenues totalled US\$14.3 million net to Zephyr, up from US\$11.5 million in the previous period and a 16-fold increase from US\$0.9 million reported one year ago. On 11 August 2022, management also reiterates its previously released 2022 production and revenue guidance of an expected US\$35-40 million in non-operated revenue, net to Zephyr, for FY 2022 based on a forecast production range of 500,000 to 550,000 boe for the year. To this, Zephyr has now also positioned itself to be generating production plus additional cashflow from its previously drilled and completed State 16-2LN-CC well before the start of 2023.

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