

#### Stock Data

Share Price:	4.85p
Market Cap.:	£76.78m
Shares in issue:	1,583.02m
52 week high/low:	8.15p/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 Group with a strategic focus on carbon-neutral hydrocarbon development projects in the Rocky Mountain region of the US.

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

#### 5-year share price performance



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

Past performance is not an indication of future performance.

#### Contact details

Tel: 0203 657 0050  
Email: [info@turnerpope.com](mailto:info@turnerpope.com)  
Web: [www.turnerpope.com](http://www.turnerpope.com)

Andrew Thacker  
Corporate Broking and Sales

Barry Gibb  
Research Analyst

TPI acts as joint broker to Zephyr Energy plc.

Attention is drawn to the disclaimers and risk warnings at the end of this document.

Retail clients (as defined by the rules of the FCA) must not rely on this document.

## Zephyr Energy plc

Zephyr has provided an operational update on both the State 36-2 LNW-CC well (the 'State 36-2 well') and the State 16-2 LN-CC well (the 'State 16-2 well') at the Group's flagship project in the Paradox Basin, Utah (the 'Paradox project'). While confirming that production testing for the State 36-2 well's fractured reservoir interval will commence shortly, and that it is expected to take significantly less time than a similar exercise took for State 16-2, management now also notes that following relaxation of constraints to enable testing of the upper bounds of production rates for State 16-2, flow was found to be impacted by down hole salt precipitation. Accordingly, the Group is now assessing whether this issue is a function of continued flow back of injected completion fluids or a function of normal flowing conditions. If it is a result of the latter, appropriate mitigation solutions will be applied and, subject to regulatory approvals, tested in the coming months in order to fully determine the potential of the reservoir. Such start-up issues are of course not unusual when such emerging plays break new ground, even if the final outcome may be to modestly delay preparation for eventual gas export and continual production operations. Bearing in mind that the current drilling programme remains amply funded through c.US\$18.5m of liquidity available as of 10 Nov 2022, however, projected medium term cash flows still appear sufficient to support exploitation of the existing inventory, which includes 2U potential of over 200 million boe across the Paradox. This of course remains key to Zephyr closing in on its ultimate goal of unlocking the next great unconventional onshore resource play in the US.

### State 16-2 well – Down hole salt precipitate encountered

Following resolution of certain surface facilities issues, the most recent testing saw the well brought online at moderate rates in order to test for flow assurance at varying levels of production. At a controlled rate of 2 million square cubic feet of gas per day and 100 barrels of oil per day (an average of 433 barrels of oil equivalent per day) the well flowed continuously and surface flow assurance efforts proved successful.

However, as flow rates were increased above these levels, the well's performance was initially limited by fresh water pumping capacity before subsequently becoming impacted by the formation of down hole salt precipitate. The precipitate, which blocked and subsequently cleared multiple times, impacted the well's flow capacity to achieve higher rates for an extended period of time. The team were in early stages of testing higher rates when its mandated flaring limits were reached.

Zephyr is now assessing whether the precipitate issue is a function of continued flow back of injected completion fluids or a function of normal flowing conditions. If it is a result of normal flowing conditions, appropriate mitigation solutions will be utilised. Subject to the necessary regulatory approvals, management is expected to test a variety of these in the coming months in order to fully determine the potential of the reservoir and any associated cost/production implications. In his statement, Zephyr's CEO, Colin Harrington, noted that it is "important to remember that the Paradox is an emerging play and one in which we are breaking new ground, and while

start-up issues are not unexpected our goal is to learn and improve with each subsequent phase of operations.”

### **State 36-2 well - Planning for the completion and production testing**

Zephyr has finalised its planning for the completion and production testing of the well's fractured reservoir interval. This follows the well intersecting a major natural fracture network in the Cane Creek reservoir which led to a significant influx of hydrocarbons into the wellbore. This influx was managed and safely controlled, which subsequently allowed for the drilling of an additional 132 feet in the fractured and productive reservoir. The Group then elected to run production casing down to the total-depth of the well. Having procured all services, operations are expected to commence in the next two weeks when a service rig will be mobilised to site. Workover operations and production testing are expected to take four to six weeks to complete.

The production test will be paid for from the Group's existing cash resources and any oil and/or condensate produced during the test is expected to be sold via existing marketing partners.

Production test results from the State 36-2 well, along with results from that on the State 16-2 well, will be integrated into Zephyr's overall reservoir model and will help define the next steps for the Paradox project development, including the sizing of related gas infrastructure and the associated capital expenditure. Targeting first commercial gas sales by late-Q3/Q4 2023, the Group needs to complete the recommissioning of its recently acquired Powerline Road gas processing plant (with handling capacity yet to be determined). From that point, Zephyr will remain at the mercy of Dominion with regard to completing the refurbishment of their 16-inch infrastructure, and TPI understands positive discussions have already taken place on this point.

### **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. Once the root cause for State 16-2 LN-CC downhole salt precipitation has been diagnosed and appropriate mitigation measures adopted, Management's near-term focus will return to recommencing production testing, while also safely completing State 32-2 LN-CC followed by the recommissioning of a recently acquired processing plant before being tied-in to gas infrastructure. The former 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, while the latter appears set to be generating first revenues well before the end of 2023.

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 of values illustrated in Sproule's report presently remain very wide, recognising also 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. The fully funded drilling programme now underway will enable further delineation and increase overall understanding of the Paradox asset base.

Management continues to assess potential upside and will shortly determine additional steps with a view to delivering increases in all reserve and resource classes during 2023.

Significantly in this respect, funding for the next major phase of development of the Paradox Project will be provided from the Group's Williston Basin non-operated assets. In November 2022, management also upgraded its previously released 2022 production and revenue guidance from an expected US\$35-40 million to an expected \$40-\$45 million in non-operated revenue, net to Zephyr, based on a forecast production range of 500,000 to 550,000 boe for the year. 2023 production and revenues are expected to be enhanced by the start-up of the Slawson wells in March 2023.

**(Risk warning: Future performance and forecasts are not a reliable indicator of future results.)**

**THIS DOCUMENT IS NOT FOR PUBLICATION, DISTRIBUTION OR TRANSMISSION INTO THE UNITED STATES OF AMERICA, JAPAN, CANADA OR AUSTRALIA.**

### **Conflicts**

This is a non-independent marketing communication under the rules of the Financial Conduct Authority ("FCA"). The analyst who has prepared this report is aware that Turner Pope Investments (TPI) Limited ("TPI") has a relationship with the company covered in this report. Accordingly, the report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing by TPI or its clients ahead of the dissemination of investment research.

TPI manages its conflicts in accordance with its conflict management policy. For example, TPI may provide services (including corporate finance advice) where the flow of information is restricted by a Chinese wall. Accordingly, information may be available to TPI that is not reflected in this document. TPI may have acted upon or used research recommendations before they have been published.

### **Risk Warnings**

Retail clients (as defined by the rules of the FCA) must not rely on this document. Any opinions expressed in this document are those of TPI's research analyst. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price.

The value of securities, particularly those of smaller companies, can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of smaller company securities may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. Past performance is not necessarily a guide to future performance and forecasts are not a reliable indicator of future results.

AIM is a market designed primarily for emerging or smaller companies and the rules of this market are less demanding than those of the Official List of the UK Listing Authority; consequently, AIM investments may not be suitable for some investors. Liquidity may be lower and hence some investments may be harder to realise.

### **Specific disclaimers**

TPI acts as joint broker to Zephyr Energy plc ('Zephyr Energy') which is listed on the AIM Market of the London Stock Exchange ('AIM'). TPI's private and institutional clients may hold, subscribe for or buy or sell Zephyr Energy's securities.

Opinions and estimates in this document are entirely those of TPI as part of its internal research activity. TPI has no authority whatsoever to make any representation or warranty on behalf of Zephyr Energy.

**General disclaimers**

This document, which presents the views of TPI's research analyst, cannot be regarded as "investment research" in accordance with the FCA definition. The contents are based upon sources of information believed to be reliable but no warranty or representation, express or implied, is given as to their accuracy or completeness. Any opinion reflects TPI's judgement at the date of publication and neither TPI nor any of its directors or employees accepts any responsibility in respect of the information or recommendations contained herein which, moreover, are subject to change without notice. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price. TPI does not undertake to provide updates to any opinions or views expressed in this document. TPI accepts no liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document (except in respect of wilful default and to the extent that any such liability cannot be excluded by applicable law).

The information in this document is published solely for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. The material contained in the document is general information intended for recipients who understand the risks associated with equity investment in smaller companies. It does not constitute a personal recommendation as defined by the FCA or take into account the particular investment objectives, financial situation or needs of individual investors nor provide any indication as to whether an investment, a course of action or the associated risks are suitable for the recipient.

This document is approved and issued by TPI for publication only to UK persons who are authorised persons under the Financial Services and Markets Act 2000 and to professional clients, as defined by Directive 2004/39/EC as set out in the rules of the Financial Conduct Authority. This document may not be published, distributed or transmitted to persons in the United States of America, Japan, Canada or Australia. This document may not be copied or reproduced or re-distributed to any other person or organisation, in whole or in part, without TPI's prior written consent.

Copyright © 2023 Turner Pope Investments (TPI) Limited, all rights reserved.