

Stock Data

Share Price:	4.85p
Market Cap.:	£84.90m*
Shares in issue:	1,750.55m*
52 week high/low:	5.10p/1.91p
*Post-Admission numbers	

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

5-year share price performance



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

Past performance is not an indication of future performance.

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TPI acts as joint broker to Zephyr Energy plc.

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Zephyr Energy plc

As well as providing a further positive 36-2R well update, Zephyr has today detailed its retirement of US\$3.88m (£3.11m) of existing debt through issuance of 64.05m new ordinary shares (c.3.7% of the enlarged capital) to SGR Investments, LLC ('SGRI') at a price of 4.85p per 'Repayment' share. Having originally provided a US\$8m asset-backed bridge loan facility to Zephyr back on 21 December 2022 in support of the Williston Acquisition, SGRI is now reflecting a high level of confidence in the Group' broader opportunity by becoming a new cornerstone equity investor. This debt-for-equity exchange, that was completed with no ancillary fees and at no discount to the market price, will further strengthen Zephyr's balance sheet while increasing future cash flows for reinvestment into its growing asset portfolio. The Repayment shares are being issued using existing share authorities granted to the Board at the Group's annual general meeting held on 26 July 2023 with their Admission being expected on or around 8 May 2024.

Residual portion of SGRI loan in process of being refinanced

The residual portion of the SGRI loan note is in the process of being refinanced through Zephyr's existing commercial banking facilities, as part of its regularly scheduled semi-annual redetermination process. The loan note incurs interest at a rate of 12% and was subject to an arrangement fee of US\$80,000, both of which have been rolled up into the loan facility. The process is expected to conclude in May 2024, with post-redetermination gross debt (less cash and cash equivalents) forecast to be c.US\$30m (H1 FY2023 gross borrowings were US\$27.5m.)

State 36-2 LNW-CC-R well ('State 36-2R') remains on track

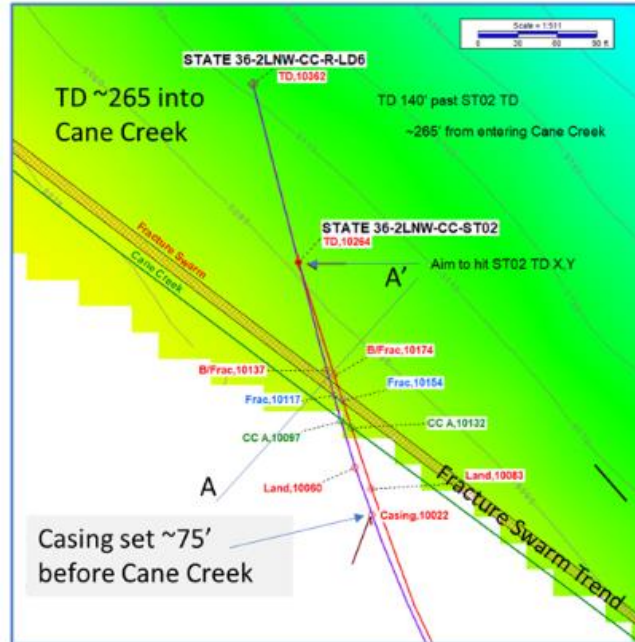
State 36-2R remains on track to complete the well within Zephyr's forecast thirty-day period. Following spudding on 25 April 2024, operations have continued to progress as expected. On 26 April, the 17½ inch surface section of the well was completed at a total depth at 1,570 feet, at which point casing was set and cemented prior to the installation of the blowout preventor. Drilling operations have since commenced on the 12¼ inch intermediate section, with a current hole depth of 3,067 feet. Drilling is planned to a total depth of 10,362 feet measured depth (9,600 feet true vertical depth) and will incorporate a short, 270-foot horizontal reservoir section.

The coming days should deliver results from this attempt to twin the original well and intersect the same Cane Creek reservoir natural fracture system State 36-2 identified. In turn, this should confirm the presence of hydrocarbons previously encountered, permitting further appraisal of Zephyr's federal White Sands Unit. Should, as is widely expected, the original results be replicated, Zephyr will then commence an assessment of the reservoir productivity by flow testing the new well. The significant majority of costs being incurred are of course covered through insurance.

The map overleaf shows the top Cane Creek reservoir, illustrating the well design and targeting of the new well relative to the original well which found

productive hydrocarbon-bearing natural fractures. The trajectories of the original well and new well are shown in red and blue respectively.

Map of the Top Cane Creek Reservoir Illustrating the Well Design



Source: Zephyr, [RNS of 17 April 2024](#)

The new well's key objective is to target the natural fracture productivity intersected by the original well by entering the Cane Creek reservoir close to the original well bore. This is being achieved after having utilised offset geological and geophysical information to help steer the well and then to perform two phases of electromagnetic ranging to locate the steel casing of the original well bore. Such precise data should permit Zephyr to closely replicate the original well trajectory and target the reservoir conditions found there. Should this goal be achieved, the new well will then be tested to assess reservoir productivity.

The blowout of State 36-2 reported on 11 April 2023 resulted in hydrocarbon release from the well in an uncontrolled manner over three days. This left an impression of a large well capable of producing significant volumes of both natural gas and high-API gas condensate (that typically trades on a price/bbl slightly above WTI). The fluid mix itself is likely to be similar to that seen during State 16-2 well's own production test although, being somewhat further south, it may possibly produce a slightly higher proportion of gas condensate. Discussions continue with third-party processing companies in preparation of Dominion's gas supply pipeline accepting initial volumes from the redrill, offering potential to deliver first Paradox production (say, c.8mmcf/d plus condensate) as early as Q4 2024/Q1 2025. Following this, output is expected to rise steadily on a quarterly basis before peaking around mid-2026. Beyond this, assuming expectations of the scale of the discovery can be confirmed along with its implications for the greater field development, TPI considers it possible that Zephyr will then seek to partner continuing development of State 36-2R with a larger, experienced oil producer based on upfront/milestone payments plus free carry for Zephyr as it earns-in to the opportunity.

Gross borrowings might peak in H1 2025

With 36-2R's costs largely covered through insurance and the only other drilling that Zephyr is likely to undertake in 2024 being for the proposed Salt Wash helium well (50% WI), overall net capex is likely to be relatively low this year (TPI estimates c.US\$7m). This could rise somewhat in 2025 should further exploration targeting prospective resources in the overlaying Cane Creek sands can be expected get underway. Assuming Paradox does successfully commence the export of gas around the end of 2024 and in the absence of further equity issuance, TPI considers it likely that the Group's gross borrowings will peak below US\$40m early in Q2 2025, declining quite sharply thereafter.

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