Zephyr Energy plc

While providing an update on the Group's Salt Wash helium project (the 'Farm-in'), Zephyr has also confirmed that the State 36-2R well's second phase production test and evaluation is now nearing completion. Steady progress continues to be made on the Farm-in, particularly with respect to advancing funding options and positioning to get full drilling operations underway next year. Meanwhile, technical analysis of the extensive data presently being collected from State 36-2R is expected to conclude shortly with results from the test expected to be formally announced within the next ten days. A successful outcome here could then be translated quite rapidly into 2P reserves with potential to spike overall Group production during H1 2025. Beyond this, with a view to delivering the best and most timely outcome for shareholders, it is likely that the Board will start pushing for broader/deeper discussions with larger industry players/strategic partners on how best to accelerate development of its broader Paradox opportunity.

State 36-2R well– Test results anticipated within next ten days

The well's second phase of production testing and related evaluation is coming to a close. This follows quite extensive works to unplug mud around and near the wellbore, having pumped acid that had been formulated with support from Halliburton under pressure sufficient to penetrate right into the fractures. The standard 30-day process that followed, then saw the well tested at varying rates and choke settings over multiple pre-planned time periods, with a view to determining both the short and longer-term potential productivity of the well. High level findings in the coming days are expected to echo the strong initial pressures of the first drill phase, which produced a peak daily rate of 1,350 barrels of oil ('boe/d') with excellent deliverability and a high liquid response.

In terms of economics, perhaps even more important than a well's peak rate is its indicated gas-oil ratio ('GOR'). Compared with Zephyr's earlier drilling of State 16-2, which was found to be somewhat gassier than expected, the southern part of the Group's acreage appears to be relatively liquid-rich. Given also the cost of disposal in this part of Utah, water content is another important aspect for consideration; while running >600 barrels of condensate/day, the water content evidenced to date has been remarkably low. Such findings are clearly very positive not only for this Federal unit but, further out, also for the underlying value of extensive acreage that the Group has acquired between this play and the black oil field at Cane Creek. The condensate's API has been consistently in the range of 57 – 58. Being a light barrel, this is very attractive for the Utah market given that it blends well with the waxier crude taken from the Uinta range in the north east of the State. Accordingly, Zephyr has been able to sell it at a price just below WTI after having taken all trucking costs.

Assuming the forthcoming results are broadly in line with the above expectations, Zephyr will likely quickly move to translate them into 2P reserves and then set about sizing its required infrastructure accordingly. Beyond this, the Board is likely to start pushing harder for deeper discussions with potentially interested industry players/strategic partners, with a view accelerating development of its broader Paradox opportunity.

Stock Data

Share Price:	3.95p
Market Cap.:	£69.15m
Shares in issue:	1,750.72m
52 week high/low:	6.00p/1.91p

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

Past performance is not an indication of future performance.

Contact details
Tel: 0203 657 0050
Email: info@turnerpope.com
Web: 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.

Salt Wash project – Spudder rig to be mobilised shortly

A key term in the Salt Wash project farm-in agreement is the requirement for Zephyr to commence drilling operations on a well on the farm-in acreage (the 'commitment well') by 1 September 2024. In accordance with this, initial operations at the site have already commenced, including drilling pad preparation and fencing the perimeter of the site. In the coming weeks, a spudder drilling rig will be mobilised to the well location and a 30-inch hole will then be drilled to a depth of approximately 100 feet and 20-inch conductor casing will be set.

Having complied with the agreement's initial key requirement, in line with its operational commitments to the field leaseholders, Zephyr does not expect full drilling operations to commence until H1 2025. Meanwhile, it remains in active conversations with industry and financial parties regarding the potential funding of up to 100% of the costs of the well at the asset level, and the Board continues to appraise the available options with the objective of maximising value for shareholders.

Commitment well to test prospect's helium exploration targets

The Commitment Well will test the prospect's three additional helium exploration targets and other potential hydrocarbon bearing reservoirs. Zephyr accordingly plans to drill, log and case one vertical delineation well to top basement rock (circa 11,000ft measured depth) in order to obtain a 100% share in the leasehold. The Seller will have the option to back-in to the leaseholding at a 25% working interest, with no historic cost exposure, once this delineation well is drilled and a field development plan has been proposed by Zephyr. From that point forward, the Seller would become a fully paying 25% working interest ('WI') partner. Zephyr has begun the work to integrate the well planning for the Commitment well within its wider Paradox project development.

Past development bypassed existing helium gas cap

Discovered in 1961 and consisting of a four-way dipping anticline within the Leadville Formation, previous development of the Salt Wash Field targeted a thin oil rim, bypassing the existing helium gas cap. It produced from the mid-1960's until abandonment in the 2010's (at a time when market prices for helium and natural gas made it uneconomic). Its proven productive Leadville Formation reservoir offers good porosity and permeability capable of economic flow rates. Historical production of 1.65 million barrels of oil and 11.7 BCF of gas in total (8.26 BCF from the Lower Leadville reservoir) prior to being shut in. The inert, helium-bearing undeveloped gas cap is delineated by multiple offset wells (gas in Place defined by >10 wells, with virgin pressure provides optimal production conditions).

Fourth consecutive quarter of non-operated production growth

Zephyr's non-operated assets continue to deliver strong and robust cash flows, enabling it to cover all corporate costs while advancing operations at the Paradox Basin. On 14 August, Zephyr provided its Q2 2024 production results related to hydrocarbon production from its non-operated asset portfolio in the Williston Basin, North Dakota, U.S (the 'Williston Project'). At the end of Q2, 231 wells in the portfolio were available for production (end-Q1 2024: 230, for which net working interests averaged 7.1%/well (equivalent to 16.3 net wells).

Production for the period averaged 1,226 barrels of oil equivalent per day ('boepd') compared to production in Q1 2024 of 1,151 boepd, an increase of 7% QOQ. This figure excludes natural gas liquids, which have historically delivered 155 to 200 barrels per day ('bbl/d'), which would lift the overall figure to a range of 1.38 to 1.43bbl/d, which is in line with market expectations. Now that sufficient production data has been generated by the Slawson wells, the Group has projected a range of 1,100-1,300 boepd for its 2024 full year non-operated production forecast, up from last year's figure of 1040 boepd. Zephyr's hedged a total of 76,000 barrels of oil over Q2 and for the remainder of the year. Of these, 40,500 of these are hedged at US$80.91/bbl and the remainder have been hedged by way of financial collars which enable it to lock-in a minimum price for these barrels. Of the 35,500 financial collars, 26,600 will give the Company a minimum price of US$74/bbl with the remaining 9,000 guaranteeing a floor price of US$69/bbl.

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.