

Stock Data

Share Price:	3.50p
Market Cap.:	£61.28m
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](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

Zephyr has announced its decision to drill a lateral extension on the State 36-2R well ('the Well'), while confirming a non-binding letter of intent (the 'LOI') has been signed with a US-based industry investor ('the Investor') to fund 100% of the estimated cost. The Board expects to close the c.US\$7m requirement in the coming weeks, following which it will move to secure a rig contract plus additional equipment in anticipation of commencing the next phase of on-site operations in late 2024 or early 2025. Supporting this, management has also estimated ultimate recoveries ('EURs') from the Well following completion of the extended lateral could be as high as two million barrels of oil equivalent ('boe'), a figure substantially higher than would likely be achieved from the Well in its current form. The fact that Zephyr has managed to advance negotiations so rapidly after confirming a positive result from the second phase production test on 6 September, suggests both a high level of interest and confidence in a successful outcome. The final terms will of course be key, but the fact that the proposal contains no equity element, while retaining operatorship and a majority of the economic benefits from the Well suggests an excellent outcome for shareholders. Other funding discussions with different industry and asset-level financial partners in respect of the larger, long-term development of the Paradox project remain ongoing, with the Investor receiving no future participation or option beyond the individual wellbore interest.

Funding terms for the lateral extension remain key

Zephyr's Board is optimistic that it will reach acceptable final terms with the Investor, understanding that it brings a long track record related to successful closing of similar non-operated wellbore and associated industry investments. The Board has been further encouraged by the level of additional industry interest shown in relation to this funding opportunity.

Reflecting on the enormous opportunity presented through the wider Paradox project, the Board appears to have strictly ringfenced the proposed LOI terms to a direct non-operated interest in the State 36-2R wellbore only. There will be no Zephyr equity issued in respect of the transaction, while it retains Operatorship and receipt of the majority of the economic benefits from the Well. Negotiations are expected to progress to complete full binding documentation over the coming weeks, well ahead of its proposed drilling commencement date.

Lateral extension offers greater potential for shareholders

The Well's successful second phase production test result appears to have made the decision on whether to produce it in the short-term, or otherwise to defer production temporarily in order to extend the wellbore in order to increase overall hydrocarbon recovery potential, a relatively simple one. Reflecting its confidence in the scale of the underlying opportunity and the wish to secure maximum rewards for shareholders, the Board now proposes to extend the lateral to an expected length of 5,500 feet. The cost of the operation is expected to be c.US\$7m (including the workover preparations

on the existing well, the drilling of the lateral extension, acidisation and the well production test). The Board currently anticipates that drilling operations will commence late in the fourth quarter of 2024 or early in the first quarter of 2025, depending on rig availability and weather conditions. Being already permitted for up to a 10,000-foot lateral extension, the proposed play might be expected to benefit both from greater connected volumes and the material positive impact acidisation could have on its deliverability. The following key factors influenced its decision:

1. EURs from the Well are expected to be substantively higher once the proposed extended lateral is completed. Management estimates that, based on all the available data, the EURs from the well could be as high as 2m boe once the extended lateral is completed, given the increase in size of the Well's drainage area following the completion of drilling; and,
2. The acidisation process used in the well production tests was extremely effective and had the benefit of significantly enhancing near-wellbore productivity. The Board believes that the combination of a longer completed interval and subsequent acidisation could potentially be one of the key factors in the successful long-term development of the Paradox project, reducing costs and improving EURs. This is anticipated to result in significantly reduced project risk and enhanced project economics.

Recent interim results confirm Zephyr remains adequately funded at this time

Half-year results published on 26 September confirmed that Zephyr remains adequately funded at this time. External funding for the Well's lateral extension should dissipate the balance sheet concerns that recently circulated the financial markets. Cash-on-hand, together with Williston project cashflow, scheduled well-control incident reimbursements and the Group's existing revolving credit facility should ensure 36-2R's production deferral will only be a relatively short-term event (subject to service provider availability), while not interfering with ongoing preparatory work for installation of the processing plant to receive anticipated production or otherwise hindering completion of its tie-in to the nearby pipeline. Data generated from the 36-2R, together with that collected from the its other Paradox wells, should also enable Zephyr to produce an updated Competent Persons Report ('CPR') in the near term. Separate to this, the Group remains in active conversations with industry and financial parties regarding the potential funding of up to 100% of the costs of the Salt Wash project well at the asset level while continuing to appraise all available options for the wider Paradox project with the key objective of maximising value for its Shareholders. With 36-2R highlighting the potential that combination of an extended lateral plus acidisation offers to deliver a large and highly productive well, Zephyr may have uncovered a key for its long-term development of the wider Paradox project.

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