

Stock Data

Share Price:	4.25p
Market Cap.:	£67.85m
Shares in issue:	1,596.50m
52 week high/low:	7.49p/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

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.

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Zephyr Energy plc

Zephyr has released Q1 2023 results from its Williston Basin portfolio, along with an update from State 36-2 LNW-CC following the well control incident announced on 11 April 2023. Hydrocarbon production from the Group's non-operated asset portfolio performed exactly in line with expectations as more wells entered their initial decline phase which (combined with lower commodity prices) resulted in a modest reduction in operating income compared with Q4 2022. This is projected to be more than compensated by the Slawson Exploration ('Slawson') operated wellbore interests coming online, although delays related to completion of surface facilities on their well pad means this is now forecast to occur in October 2023, roughly three months behind their original schedule. Zephyr intends to provide an update in relation to its FY 2023 production guidance at that time. Meanwhile, the Board's top priority remains to deliver a safe and successful production test of the State 36-2 LNW-CC well and looks forward to further updating shareholders when this commences in the coming weeks.

Q1 2023 Williston Basin operational highlights

- Quarterly revenues totalled US\$6.3 million, net to Zephyr, compared to Q4 2022 revenues of US\$7.4 million (totals subject to audit).
- Q1 2023 operating income was US\$5.7 million (after taxes, lease operating expenses, realised hedging impacts, and gathering and marketing fees), compared to Q4 2022 operating income of US\$6.3 million.
- Q1 2023 sales volumes averaged 1,093 barrels of oil equivalent per day ('boepd') compared to Q4 2022 sales volumes average of 1,192 boepd.
- Zephyr hedged 36,000 barrels of oil in Q1 2022 at a weighted-average price of US\$90.05 per barrel of oil ('bbl').
- At 31 March 2023, 223 wells in the portfolio were available for production, including one well which came online during Q1 2023. Net working interests across the Williston Basin portfolio now average 6.4% per well, equivalent to 15.1 gross wells in total, all of which utilised horizontal drilling and modern, hydraulically stimulated completions.

Acquired for their ability to recycle/pay-back cash quickly, these non-operated wells are performing exactly in line with management forecasts, as they move through the initial decline phase before entering a longer tail with more gradual decline.

Slawson operated interests to more than offset this decline

In anticipation of Williston Basin's production decline, on 21 December 2022, Zephyr announced its acquisition of the Slawson operated wellbore interests.

These are now fully drilled and completed. Production from these working interests had been forecast to come online by July 2023, but this has slipped back by roughly one quarter due to minor delays related to the completion of surface facilities on the well pad. Now forecast to be online by October 2023, the Group has stated it will provide an update in relation to FY 2023 production guidance at that time.

Paradox Basin – State 36-2 LNW-CC well update

Following the significant well control incident announced on 11 April 2023, Zephyr now reports that the State 36-2 LNW-CC well remains stable and under control while additional well repair work is ongoing. Zephyr plans to commence a production test of the well as soon as all necessary well work has been completed. This is expected to include a cement squeeze and the perforation of the well in the Cane Creek reservoir.

Start-up issues are of course not particularly unusual when such emerging plays break new ground but, given the high pressures and significant hydrocarbon volumes witnessed to date, the continued safety of all personnel on site and the mitigation of any environmental impact remain of utmost importance for the Group. Its team is working methodically and carefully to ensure both goals are met, at which point Zephyr will announce and commence the production test.

Well Control Insurance expected to cover most of the costs related to the blowout

As a risk mitigation protocol, Zephyr's operations were covered by comprehensive Well Control Insurance. Although finalisation of negotiations is likely to take some time, it is expected that its policies will cover the bulk of all equipment and pad damage costs, as well as expenses related to site remediation. Zephyr may have duty to pay some relatively minor excess charges, while also incurring additional costs related to possible modification of facilities required to cope with the excess pressure, any additional work that may be needed to the well itself, plus fees related to retaining the rig crew for a longer than expected period.

Restart of State 36-2 well's production testing expected in coming weeks

Such drill pad and wellbore remediation is not expected to present any major technical challenges although additional well work may be required once further evaluation has been undertaken. Although it is unclear at this time as to the total volume of gas and condensate released during the blowout, surface impacts appear to be limited to an immediate area around the pad, and management is undertaking a confirmatory environmental survey at present. Given the significant pressure events witnessed, however, management is reviewing each and every aspect of the production facilities, the Well itself and operational procedure to help ensure a successful production test which, realistically, might be expected to get underway in the coming weeks. Despite all this, management do not foresee the delay as being material in the long run.

Although challenging from a safety and environmental standpoint, the event itself provided a further boost to the Group's confidence that it has a significant well on hand with State 36-2. Being an uncontrolled event, there was of course no facility to measure the flow of gas and condensate over the three days, although it clearly left an impression that Zephyr has a large well on hand capable of producing exceptional 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. Once underway, production testing is expected to take less than four weeks to complete. The outcome will undoubtedly be eagerly awaited.

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 during 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, regarding which TPI understands positive discussions have already taken place and construction of the Dominion pipeline extension is currently underway.

Williston Basin: Q1 2023 production and sales details

Zephyr's net sales for Q1 2023 were approximately 98,401 boe. Q1 2023 product mix was 88% crude oil, 5% natural gas, and 7% natural gas liquids. This is detailed in the table below:

Williston Basin - Q1 2023 Sales Volumes, Product Mix, and Average Prices Achieved

Oil	70,464 bbls at an average sales price of US\$77.98/bbl*
Natural Gas	89,675 thousand cubic feet ("mcf") at an average sales price of US\$3.22 /mcf
Natural Gas Liquids	12,991 bbls at an average sales price of US\$37.28 per bbl

*excluding hedges

Source: Zephyr Energy, [RNS of 16 May 2023](#)

(Note: Q1 volumes and average sales prices figures include field estimates in respect of March 2023 natural gas and natural gas liquids sales volumes and are subject to future revision.)

Additional existing production wells were changed from temporarily shut-in to producing status during Q1 2023. As new infill wells are drilled, existing offset wells may be temporarily shut in to optimise the nearby completion and mitigate offset well production losses. As a result, the Group is now seeing those offset wells being re-instated for production in tandem with the new infill wells being started up for production.

Cashflow from non-operated interests in newly drilled wells may lag actual production by up to five months. Specific to Williston Basin, such payments from the operator accrue on a monthly basis and are paid in full prior to the sixth month of production, which may result in impacts to quarterly sales volumes and revenues during times of significant completion activity. Zephyr expects additional accrued payments from operators during the remainder of 2023 given Zephyr's interests in 25 newly drilled wells which came online over the last two quarters.

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. Following the events of the past few days, management's immediate focus remains on restarting State 36-2 LN-CC's production testing, followed by safely completing the Well and the recommissioning of a recently acquired processing plant before being tied-in to gas infrastructure. It remains on schedule to be generating first revenues 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 development of the Paradox Project will be provided from the Group's Williston Basin non-operated assets for which, in February 2023 it reiterated its FY 2023 production forecast of 1,550 to 1,750 boepd (net to Zephyr). To this it is expecting significant additional production volumes by the end of October 2023 as the new Slawson wells come online. Starting 1 April 2023, Zephyr had hedged 164,000 barrels of oil over the following 12 months at a weighted-average price of US\$84.34 per barrel and will continue to evaluate its commodity price risk management strategy on a regular basis.

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

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