



## TENNYSON E&P news – Beacon Energy – Schwarzbach-2 update

Tennyson Securities, Energy Research

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**Beacon Energy** (BCE LN) has issued an update this morning on clean-up operations at its Schwarzbach-2 well onshore Germany. To recap, the company drilled the well earlier this year, with results far exceeding expectations and resulting in an almost doubling of best estimate recoverable reserves. Delays during drilling however resulted in ingress of drilling fluids into the reservoir and led to follow-on delays. The company has been recovering these fluids with the assistance of a rod pump, installed last month. Recovery, alongside oil production, commenced at higher rates, but have since declined to a stabilised level of around 40 bopd. This is far below the unrestricted potential of the well (calculated using known reservoir and fluid characteristics) of 900 bopd, and illustrates the fact that heavy drilling mud is still restricting the flow.

The well does continue to clean up, and Beacon is hopeful that the mud is slowly recovered and the well builds to full potential, however a sand jetting operation is arranged for late January in order boost near term production. Sand jetting is a standard well stimulation technology used in conventional reservoirs, whereby high-pressure water and sand is jetted into the reservoir. The pressures are such that the process creates bores several metres in length, bypassing and/or clearing near-wellbore damage. Beacon has been able to analyse downhole conditions and has estimated that the damaged zone amounts to less than three metres. Furthermore, the relatively soft reservoir in this location should respond well to jetting, so Beacon is confident that there will be a good response to the operations. The uncertainty in our minds will be whether the immediate response is an additional 100 bopd, 300 bopd, or 500 bopd. With operations costing under €500k, the payback under each scenario makes the operation commercially viable. Even-so, at today's unstimulated rate of 40 bopd the field is commercial on an ongoing basis, with revenues exceeding field operating costs. To date over 1,600 bbls of oil has been produced and continues to grow on a daily basis.

Beacon shares have been weak over the past few weeks as investors nerves around the clean-up set in. While these operational delays and challenges are frustrating, some investors have been detracted from the fact that the company has a 100% stake in a >7 mmbbls discovery onshore Germany, with an NPV10 of over US\$140m. Furthermore, following a small equity raise earlier this year, the company is comfortably funded to raise production from the Schwarzbach well and to organically build cash flow to continue developing the field. This, in our opinion presents an opportunistic buying opportunity for longer sighted investors.

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