



TENNYSON E&P news – Beacon Energy – Decision to sidetrack

Tennyson Securities, Energy Research

29 February 2024

Beacon Energy (BCE LN) has announced an operational update alongside a €3m equity fundraise, as it looks to resolve the operational issues suffered with the SCHB-2(2.) well onshore Germany. Last year the company had significant technical success with the well, encountering better reservoir properties and a far larger accumulation than expected during drilling. Mechanical problems however resulted in high levels of drilling fluids (muds) precipitating into the sands, restricting the flow potential of this well. The company had hoped that relatively inexpensive intervention could remove the skin damage (including the installation of a sucking rod pump and a sand jetting process), however these operations have not significantly improved flow rates, and as such a decision has been made to drill a fresh sidetrack from the wellbore. At around €2m, the sidetrack is the most costly intervention, but it is also has the greatest chance of success in our opinion. The sidetrack is small, at around 100m in length and between two and ten metres from the original hole, meaning no geological variability between the original hole and this one. This means that management expects the sidetrack's flow potential to be equivalent to the unrestricted potential, which has been previously estimated at 600-900 boepd.

The rig has been booked and is due onsite in April. The operations are fairly minor, and the whole sidetrack process is expected to be complete in a couple of weeks. As such, we expect production from the discovery to commence during May. Management has, this morning, published operating cash flow forecasts at various production rates. At 600 bopd the company expects to generate some €800k of monthly operating cash flow (net of opex and corporate G&A) at US\$80/bbl Brent. These funds will ultimately allow the company to reinvest with additional development wells in the field. We expect that some six or seven wells will be required to drain the upgraded 7.2 mmbbls of 2P reserves, each well capable of flowing a similar amount to the theoretical rates north of 600 bopd (note that these are IP rates, prior to natural decline). The recently published CPR valued barrels in the ground at around US\$15/bbl (NPV10, US\$60/bbl LT oil price), illustrating the high net present value for the discovered reserve base versus the current market cap.

In order to fund the sidetrack, and provide working capital through to cash flow from the field, Beacon has raised €3m in new equity at 0.05p/shr. Existing shareholders will be undoubtedly frustrated with the 28% dilution at this late stage of appraisal and development, however we are pleased that the decision has been made to effectively start again with the reservoir section of the well. We know from a technical perspective that the reservoir is of excellent quality, and a well drilled to its full potential will flow highly productive rates. A small sidetrack should spring very few surprises, and with the company now comfortably funded through to production, we are optimistic for the coming few weeks.

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