SURPRISE ENERGY PLAY:

How You Could Cash In On a $600 Billion Oil & Gas Crisis

Disseminated on Behalf of Zefiro Methane Corp.

Hidden Danger

Six months after surgery to repair an Achilles rupture, I stood at the base of a Pennsylvania mountainside and stared at the fall colors. Typically, one doesn't leave the warm weather of Texas in late October for the chilly fall temperatures and gloomy weather of northern Pennsylvania. Still, the story I had heard weeks earlier was too compelling not to investigate.

I wasn't alone either. A dozen other folks joined me that day.

As our group trudged uphill, deeper into the woods, I fell behind. The group waited by an area blocked off by orange tape. When I finally reached them, I huffed, "You guys just brought me along in case we ran across any bears or mountain lions because you knew you'd have someone you could outrun."

Our host shook his head and told us we had much deadlier things to worry about, like "Satan's Whisper," "Death's Breath," and "Lucifer's Lullaby." We all exchanged confused glances. He pointed up the hill to more orange tape, "That's Satan's Whisper." He turned and pointed to orange tape off to the left, "And that's Death's Breath."

A moment later, he flicked his head at the orange tape circle a few feet away. "And that there is Lucifer's Lullaby. Stand too close to her too long, and she'll put you to sleep for good."

The deadliest thing on the mountain wasn't a bear, a mountain lion, or a venomous snake; it was methane slowly leaking from an orphan well in the ground. What once was an oil and gas exploration project is now an abandoned science experiment.

We all slowly backed away from the tape as he laughed. While methane can cause asphyxiation in confined or small spaces, we stood in the open woods. Now, had one of us lit a cigarette while standing near one of those holes, the flammable methane would easily catch fire. With a constant stream of gas flowing from the ground, a fireball or explosion was possible, and putting out the flames would be nearly impossible.

The greater risk posed by these leaks is more subtle and long-term. Methane is a greenhouse gas that pollutes the atmosphere and can poison groundwater. This wouldn't be an issue if these three orphaned wells were the exception, but there are estimated to be **millions** of orphaned wells in the United States, and they present a clear danger.

Many of those orphaned wells are currently leaking methane. Worse yet, because they are abandoned with no person or company of ownership record on file to be responsible for them, much of their damage continues to go unchecked.

Methane Risks

When orphan wells aren’t properly sealed and leak methane, they pose significant health and environmental risks, which vary depending on the size and location of the leak.

Small leaks in an open-air location may pose only a minor risk, while large leaks pumping a high volume of methane into an enclosed area may pose a significant risk.

1. **Environmental Impact**: Methane is a potent greenhouse gas with a global warming potential many times greater than carbon dioxide.

2. **Air Quality**: Methane leaks can release other harmful hydrocarbons and volatile organic compounds (VOCs), which can degrade air quality and contribute to the formation of ground-level ozone.

3. **Health Risks**: Exposure to methane can lead to health problems for people living near orphan wells. These health issues can range from respiratory problems to more severe long-term conditions.

4. **Explosive Hazards**: Methane is highly flammable, and its accumulation in enclosed spaces can create explosive hazards, posing risks to nearby communities and infrastructure.

5. **Water Contamination**: Leaking wells can also allow methane and other contaminants to migrate into groundwater, potentially contaminating drinking water sources.

6. **Economic Costs**: Addressing methane leaks from orphan wells can be costly. Taxpayers are often responsible for these costs when the original operators are no longer in business.

7. **Ecosystem Damage**: Methane leaks can disrupt local ecosystems, affecting plant and animal life.

Addressing these risks isn’t easy. It requires proper identification, monitoring, and remediation of orphan wells. According to recent estimates, there are over three million orphaned and abandoned wells in the United States. Fortunately, not all the wells leak methane, but hundreds of thousands of wells are poisoning the environment.

Exact numbers are difficult to obtain. States use different detection, monitoring, and reporting systems; many orphan wells remain undocumented. Unfortunately, the number is probably higher than the current estimates, not lower. Even at one-tenth of the current estimates, it’s still a huge problem.

Zefiro the Hero

Zefiro Methane (OTC: ZEFIF) is an environmental services company specializing in methane abatement for orphan wells and corporate clients. This includes plugging wells and detecting and measuring methane leaks.

The company completed a successful initial public offering on April 23, 2024, and trades on the OTC market under the ticker symbol: ZEFIF. Given the recent listing and low market cap, the name isn't on Wall Street's radar yet, but I don't expect it to stay that way forever.

Labeling them heroes may be premature, but the company's work is vital to stopping methane leaks around the country. The financial reward includes carbon credits and a fee for their environmental service of plugging wells and stopping leaks.

Methane is Money

Eliminating methane leaks protects you and helps the environment. And it also pays big money to the company that can detect and contain the leaks.

But orphaned wells have no owners. No one is responsible for paying for methane containment, but that's a blessing in disguise. The good news is that the high cost of containment is still being paid.

The best part is who pays the bill.

The government.

We may joke about how slow the government is to issue refunds or how they overpay for things like $28 million for camouflage uniforms for use in Afghanistan that didn't match the environment, $1.2 million for developing comfortable collars with tracking devices for monkeys, or $1.7 billion per year to maintain 77,000 empty buildings. Still, in the end, they do pay. And they will pay the market price or higher.

The list goes on and on, but the government isn't afraid to spend, and sometimes, it even gets things right.

In 2022, the Biden Administration Bipartisan Infrastructure Bill made $1.15 billion available to states to create jobs cleaning up orphaned oil and gas wells in the United States. The Bill's total allocation is $4.7 billion, which is unsurprising given that millions of Americans live within a mile of an orphaned oil and gas well, many of which leak methane.

This Bill is tied to the U.S. Methane Emissions Reduction Action Plan, a comprehensive strategy to reduce methane emissions. The extensive plan includes additional regulatory measures proposed by the Environmental Protection Agency (EPA) to reduce methane leaks from existing and new oil and gas wells, financial incentives to reduce methane emissions that include plugging abandoned wells, and financial support to develop technologies for detecting, monitoring, and reducing methane emissions, among other action items.

While it is great to see the government take action, Curtis Shock of the Well Done Foundation, an environmental non-profit said, “the federal funds won’t come close to addressing the current inventory of orphaned wells.” Unfortunately, ti won’t stop new wells from being abandoned by bankrupt operators either.

From the first $560M distributed by the government for methane abatement, training, and orphan well plugging, 2800 wells were plugged. More than a half-billion dollars and barely a dent has been made in the orphan well crisis.

Legacy oil and gas companies have no interest in plugging orphaned wells. Many companies aren’t keeping up with plugging their wells, let alone wells outside their control. That has created a huge financial opportunity for smaller, agile companies like Zefiro Methane.

Net Zero Need = Profit Opportunity

Carbon credits elicit mixed responses when spoken. Investors often dismiss the potential financial upside carbon credit-producing companies contain because of the glut of low-quality or fraudulent carbon credits that plagued the industry early on. But make no mistake: there is a substantial market and need for high-quality carbon credits like the ones Zefiro produces each time it caps a methane-leaking well.

Roughly 25% of the Fortune Global 500 Companies have committed to carbon neutrality by 2030. That’s only a little more than five years away. While many are reducing their carbon footprints through emission reduction projects, they also use high-quality carbon credits to become “carbon neutral.” In short, they can purchase carbon credits to offset other emissions and become carbon neutral.

Think of it like this.

I eat 2000 calories per day.

My friend Bob eats 1000 calories per day.

A new government mandate states people can only eat a maximum of 1500 calories per day, and anyone eating less gets a “calorie credit” they can sell to others.

That means I’m eating 500 calories (1500 max - 2000 eaten) too much, and Bob has 500 calorie credits (1500 max - 1000 eaten).

Let’s assume that I love food and don’t want to change my diet, so I buy Bob’s 500-calorie credits from him and use them to offset my 500-calorie overage.

Nothing changes except Bob profits from my gluttony, and I spend a little money to keep eating the same way.

Big businesses are doing just this with carbon credits. They can’t make changes fast enough to control emissions or simply don’t want to because of the impact on profits, so they buy carbon credits.

However, unlike calories, not all carbon credits are created equal, and their price reflects that.

The value of carbon credits can vary widely depending on several factors, including the specific market, the type of project generating the credits, and current demand and supply dynamics. As of April 2024, the average voluntary carbon credit price hovered just below $7 per metric ton of CO2 equivalent per carboncredits.com.

Price and volume range from $3 to more than $11 based on the category from which the carbon credit is created:

Table 3. VCM Transaction Volumes, Values, and Prices, by Project Category, 2021-2023 YTD

	2021			2022			2021-2022 PERCENT CHANGE			2023 (YTD)
CATEGORY	VOLUME ($MtCO_2e$)	VALUE (USD)	PRICE (USD)	VOLUME ($MtCO_2e$)	VALUE (USD)	PRICE (USD)	VOLUME	VALUE	PRICE	PRICE (USD)
FORESTRY & LAND USE	242,339,151	$1,401,461,426	$5.78	113,253,651	$1,148,848,783	$10.14	-53%	-18%	+75%	$11.21
RENEWABLE ENERGY	214,508,581	$463,950,451	$2.16	92,477,042	$386,054,729	$4.16	-57%	-17%	+93%	$3.97
CHEMICAL PROCESSING & INDUSTRIAL MANUFACTURING	17,253,275	$53,877,016	$3.12	13,338,781	$68,531,895	$5.14	-23%	+27%	+65%	$4.69
HOUSEHOLD / COMMUNITY DEVICES	8,687,821	$46,606,814	$5.36	9,070,331	$77,590,244	$8.55	+4%	+66%	+60%	$7.33
ENERGY EFFICIENCY / FUEL SWITCHING	10,936,656	$23,583,132	$2.16	6,601,354	$35,577,952	$5.39	-40%	+51%	+150%	$3.69
WASTE DISPOSAL	11,647,530	$42,292,142	$3.63	6,207,615	$44,870,139	$7.23	-47%	+6%	+99%	$9.00
AGRICULTURE	987,026	$9,525,119	$9.65	3,783,393	$41,700,362	$11.02	+283%	+338%	+14%	$6.43
TRANSPORTATION	5,405,466	$6,257,391	$1.16	176,338	$770,485	$4.37	-97%	-88%	+277%	-

Category isn’t the only driver. There are several key factors influencing the value of carbon credits, including:

1. **Market Type**: Compliance markets (regulated by government policies) often have higher and more stable prices than voluntary markets.

2. **Project Type**: Credits from high-quality projects (e.g., those with verifiable and additional emission reductions like Zefiro's) tend to be valued higher.

3. **Geographical Differences**: Regional markets and regulations can lead to price disparities.

4. **Market Demand**: Growing corporate commitments to carbon neutrality and increased regulatory pressures can increase demand and prices.

5. **Age**: Buyers prefer newer credits. More recently created carbon credits are more likely to use updated technology that have greater accuracy in their measurement of carbon reduction.

6. **Verification and Standards**: Credits verified by reputable standards and organizations, such as the American Carbon Registry (ACR), Verified Carbon Standard (VCS), or the Gold Standard, usually command higher prices.

In April, Zefiro announced it completed its first carbon credit listings on the American Carbon Registry. The credits have met all the ACR validations and verification standards plus been validated by an external third-party validator.

ACR

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Project ID	Compliance Program ID (ARB or Ecology)	Project Developer	Project Name	Project Type	Project Methodology/Protocol	Current Crediting Period Start Date	Current Crediting Period End Date	Voluntary Status
ACR959	N/A	925	Zefiro Methane OOG 1 - Drake	Industrial Process Emissions	Plugging Orphan Oil and Gas Wells in the U.S. and Canada	04/08/2024	04/07/2044	Listed
ACR1012	N/A	925	Zefiro Methane OOG A - Drake	Industrial Process Emissions	Plugging Orphan Oil and Gas Wells in the U.S. and Canada			Listed

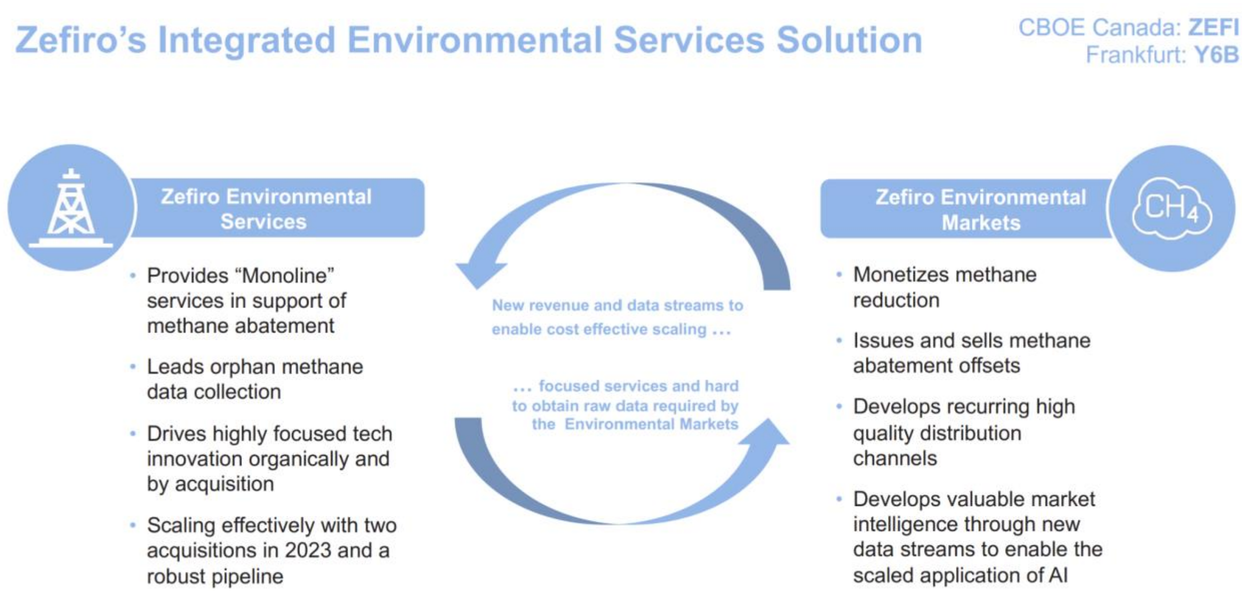
Less than three months after listing on the American Carbon Registry, the company announced it had presold a portion of its carbon offset (carbon credits) portfolio to EDF Trading, a leading player in the wholesale energy market.

Zefiro's methane abatement carbon credits should generate at or above market prices, so we want to monitor this with each financial release. While we don't know the price or the exact amount sold in the EDF Trading agreement, based on the quality and age of the credits, we anticipate the price to be in the high single digits.

Revenue Model

Zefiro draws its revenue from three sources:

1. **State and Federal Government —** With nearly $5 billion available from the Biden Administration Infrastructure Bill and another $850 million earmarked by the EPA for methane leak detection, government entities have a big checkbook to employ environmental service companies like Zefiro to detect methane leaks and plug orphan wells.
2. **Corporate Clients —** Exploration and production oil and gas companies operate tens, hundreds, or even thousands of wells at a time. Their core business is discovering, extracting, refining, and shipping oil and gas. As well supplies diminish, hiring an outside party to seal old wells is often cheaper or more efficient so the company can focus on its primary business of exploration and production.
3. **Carbon Credits**

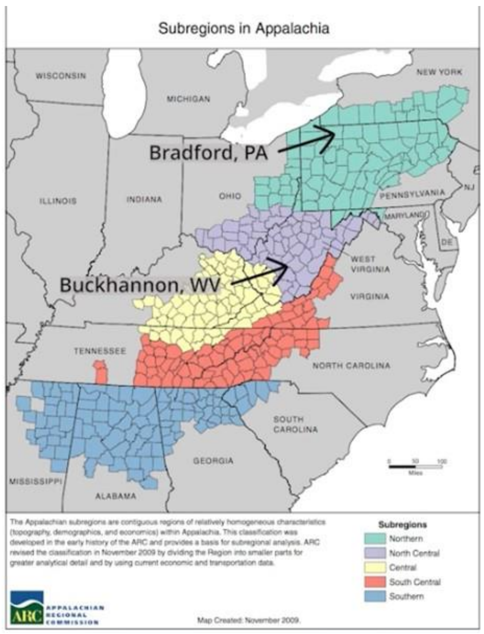


Financials

Despite being a young company, Zefiro is already producing strong financial results. For the quarter ended March 31, 2024, the company reported revenue of $8.5 million, a 10% quarter-over-quarter increase.

Gross profit margins registered 31%, resulting in a positive EBITDA of $407.000. Moving forward, margins will increase as carbon credits, with their strong 40%+ gross margins, become a more significant portion of revenue, and the company improves operational efficiency.

In April, Zefiro's initial public offering (IPO) raised the company's gross proceeds of $3 million. The company expanded its operational facilities across state lines from Pennsylvania to West Virginia a month later.



This will help Zefiro more efficiently deliver on its $700,000 pipeline for environmental service projects in West Virginia. The new facility means reducing transportation, fuel, and labor costs, which could improve gross margins by as much as 15%.

TEAM

Talal Debs - Founder & CEO

With extensive energy and commodities experience, Talal served as chair of J.P. Morgan's oil and gas price deck committee and in leadership roles covering infrastructure and commodities credit, insurance, and reservoir engineering and technical analysis; his time at the institution spanned 15 years. Talal has nearly a decade of experience as a researcher and lecturer within the technically demanding field of the foundations of quantum mechanics and relativity theory. He earned his AB in physics and the history of science from Harvard College, his MPhil in history and the philosophy of science from the University of Cambridge, and his PhD in the foundations of modern physics.

Luke Plants - **Senior Vice President of Corporate Development**

Luke Plants is the leading expert in Plugging & Abandonment (P&A) in the Appalachian region. As a former Chief Operating Officer at Plants & Goodwin (P&G) and a third-generation owner/manager, he brings extensive industry experience and expertise. He holds an MBA from Penn State and is a proud US Army veteran.

Tina Reine - **Chief Commercial Officer**

Tina started her career in environmental markets in London at Cantor Fitzgerald's Environmental Markets group in 2007, selling forward contracts on carbon offsets. During this time, she joined the policy debate at the Houses of Parliament to develop standards and registries for the voluntary trading market. She also helped build the environmental markets division at JPMorgan and NextEra Energy. Previously, she was Director of Commercialization for the carbon offset market at World Kinect Energy Services. Tina earned her MBA from Columbia Business School.

Market & Valuation

When examining the total addressable market (TAM) for Zefiro, I am going to focus on their core businesses currently: orphaned wells and carbon credits. It is important to note that the total addressable market will dwarf the realistic revenue and market capture.

For instance, the global carbon credit market was nearly $500 billion in 2023 and could reach $1.33 trillion by 2033. In the voluntary carbon credit markets under which Zefiro operates, the total market is about 150 million tonnes per year for the next decade, if not longer. From a financial perspective, that equals $1.125 billion in potential revenue per year.

However, that is not a realistic number for any company to produce on its own, let alone a small start up.

Currently, Zefiro has 130,000 tonnes of carbon credits in various stages of production. This should generate around $1.04 million in revenue.

Next year, management anticipates their work could generate 2 million tonnes, or potential revenue of $16 million.

And in five years, Zefiro could be producing as much as 15 million tonnes in carbon credits, or $120 million in revenue from carbon credits alone.

These numbers assume Zefiro sells each credit for only $8 per metric tonne. Odds are the value of a carbon credit increases over the next five years, but I'll maintain a conservative approach.

It's also important to note that Zefiro intends to pre-sell its carbon credits to eliminate any carrying risk. While that might result in prices that are slightly below what Zefiro could get on the open market, it removes a risk that I would view as substantial.

The orphan well market involves a bit of speculation. The Department of Interior (DOI) documented 130,000 orphaned wells in 2023. That number came in twice their previous estimates. The Environmental Defense Fund estimates an additional 800K undocumented wells. Zefiro believes there could be more than one million wells leaking methane.

Just based on the current documented wells and the average cost to plug a well, the total addressable market ranges from $10 billion to $26 billion dollars.

Why such a wide range? Plugging wells ranges from simple to complex.

When we factor undocumented wells, our TAM increases significantly, with a conservative midpoint above $100 billion. This doesn't include the additional resources the industry currently lacks from equipment to training to labor force.

The true TAM is likely a quarter-trillion dollars, but our focus is on the realistic market.

Zefiro is dialed in on Pennsylvania, Ohio, New York, and West Virginia remediations. Four states out of 26 may not sound like many, but Pennsylvania and Ohio are two of the states with the largest number of ophan wells. Even better, their total government grant money is significant.

Pennsylvania's total grant for well remediation is $305 million. Ohio's is currently $205 million. West Virginia comes in at nearly $117 million. And New York has been allocated nearly $45 million in Federal grant money.

From just those four states alone, Zefiro has potential revenue of $672 million. Management anticipates plugging 3,000 to 5,000 wells per year by year five. I will be looking for year two plug numbers to land in the 400 to 500 well range for the company to be on track to hit its year five target.

When we put this all together, Zefiro has the potential for $1 billion in total revenue over the next five years from orphan well remediation and carbon credits. This number excludes potential revenue from corporate clients, wireline contracts, and basic methane leakage detection.

Even if we apply a 80% discount to future revenue over the next five years, Zefio's current market cap of $75 million undervalues the company by $125 million, implying a 150% upside to the current price.

Risks

Zefiro is a small cap stock that trades on the OTCQB in the United States and the NEO in Canada. As a new issue, the volume is thin, which creates a risk when buying and selling. Investors should use limit orders when buying or selling the stock; otherwise, the execution price may vary significantly from the price the stock last traded.

The methane abatement and well plugging sector is disjointed, relying heavily on "Mom and Pop" companies. That creates an opportunity for Zefiro to roll-up (buy) competitors to expand business and revenue quickly. Any acquisition or partnership will bring execution and integration risk.

As this sector matures, the potential for larger, well-capitalized environment service or traditional oil and gas companies to enter as competitors will increase if small companies show strong growth and big profit-margins. While that's a risk, the more likely outcome is a bigger company would simply buy Zefiro rather than compete against them, so this is a risk I view with a big silver lining.

Political risk could disrupt some of the blue sky potential for the company's revenue. A shift to a Republican dominated Congress and White House may impact future grants; however, it is important to remember that the Infrastructure Act was a bipartisan agreement and a significant portion of the funds from that Bill are already in the states' treasuries. While political shifts are a risk, I do not view them as a major risk in the foreseeable future.

Conclusion

Zefiro Methane might not have the sex appeal of AI or space travel, but the current value and blue sky potential are alive and well. The company is perfectly positioned to generate revenues of up to $1 billion over the next five years without leaving the current four states in which it predominantly operates. Odds are though that they will expand beyond those four states.

The company boasts a strong team with deep experiences in both environment services and the carbon credit markets. With three revenue streams already in play and the potential to expand the states that it serves along with the products that it offers, the revenue figure from above will likely sit at the lower end of my expected range. The team will need to execute, but that is true of any business.

At its current price, the valuation is a compelling upside compared to its downside risk. The primary need is more volume on the stock, but that should naturally as the story and financials spread to a greater number of investors.

Streetlight Confidential will be adding Zefiro (ZEFIF) to our portfolio one week after this report is issued if the shares are trading below $1.76 as that is our buy-up to price.

If you feel Zefiro might be a fit for your portfolio, I strongly encourage you to consult with your financial advisor and conduct your own due diligence before making any decisions.

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