Zephyr Energy plc

Zephyr yesterday announced a placing and subscription of 500 million new ordinary shares (the 'Placing Shares'), at a price of 2.0p per Placing Share, to raise £10 million before expenses (the 'Placing'). It is intended that the proceeds will be used to fund the Paradox Project's ('the Paradox', 'the Project') upcoming lateral well (the 'Paradox Lateral') while also being used to acquire and fund new oil producing interests in the Bakken Formation USA ('the Acquisition). The Board's objective is to enable Zephyr's transformation into a self-sustaining platform for organic growth with a diverse portfolio of production assets in two established USA oil producing basins. Of the funds raised in the Placing, £6 million (the 'second tranche') is conditional, inter alia, on approval by the Group's shareholders at a General Meeting to be held on 16 April 2021, with the balance (the 'first tranche') being raised within existing share allotment authorities. Importantly in this respect Board members, including the Chairman, CEO and CFO, agreed to subscribe the Placing either directly or through their investment vehicles, which was also strongly supported by a range of new and existing institutional investors, family offices, and other investors having been conducted by TPI acting as the Group's sole broker.

Details of the Placing

- The Placing was carried out at a 2.5% discount to the Company's closing price of 2.05p per share on Friday 26 March 2021.
- The Placing will fully fund the US$3.5 million State 16-2 CC LN appraisal well (the 'Paradox Lateral') drilling programme targeting the Group's first production from its Paradox project.
- The Placing also allows the Group to proceed with the proposed acquisition and fund associated capital expenditure of highly economic working interests in currently producing/near-term production wells in the Bakken Formation, North Dakota, ('Bakken Project').
- The Acquisition is expected to provide Zephyr with immediate oil production and the substantial cashflows from the Bakken Project are expected to have the potential to fund multiple additional Paradox wells over the next 12 months. The Group will also be able to utilise its historical tax losses of more than US$16 million to offset federal income taxes due on profits from the Acquisition.

Details of and reason for the Acquisition

It is intended that the proposed Acquisition will provide Zephyr with low-risk oil production from already drilled wells, which is expected to generate substantial cashflows that can be utilised across the Group, including funding for the additional development of the Paradox.

The Acquisition is of non-operated working interests in five wells (one producing well and four drilled but uncompleted wells ('the DUC wells' or 'DUCs')) in Mountrail County (the 'Bakken Interests'), with participations ranging from 16.8% to 37.2%. The wells are operated by Whiting Petroleum, an active and highly experienced regional operator, being purchased from a privately owned US-based exploration and production company ('the Seller') which has not funded any of its historic or future capital obligations on the Bakken Interests.

Stock Data

Share Price:	2.20p
Market Cap.:	£26.9m*
Shares in issue:	1221.8m*
52 week high/low	3.30p./0.42p

**post first and second Admissions*

Company Profile

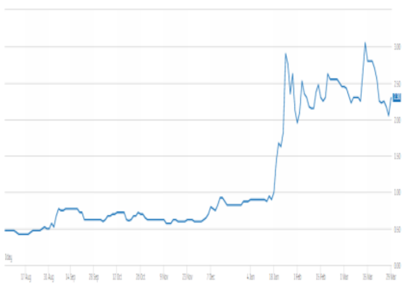
Sector:	Oil & Gas
Ticker:	ZPHR
Exchange:	AIM

Activities

Zephyr Energy plc ('Zephyr', 'ZPHR', 'the Group'), formerly Rose Petroleum plc, is a junior oil and gas E&P company with a core focus on oil and gas interests in the Rocky Mountain region of the US.

www.zephyrplc.com

1-Year Share Price Performance



Source: LSE

Past performance is not an indication of future performance.

Turner Pope contact details
Tel: 0203 657 0050
Email: info@turnerpope.com
Web: www.turnerpope.com

Andrew Thacker
Corporate Broking & Sales
andy.thacker@turnerpope.com

Zoe Alexander
Corporate Broking & Sales
zoe.alexander@turnerpope.com

Barry Gibb
Research Analyst
barry.gibb@turnerpope.com

TPI acts as sole broker to Zephyr Energy plc.

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The producing well has been on production since March 2020. The four DUCs are scheduled to be completed in May 2021 and their associated initial production revenues are targeted to be received by August 2021. 2P Reserves being acquired are estimated at 449,434 barrels of oil equivalent ('boe') to Zephyr. Importantly, the five wells are spread across three separate drilling pads which creates production diversification, and for which headline terms were agreed with the Seller when the oil price was at US$45/bbl, subject to further due diligence, funding and final documentation.

Economics of the Bakken Interests Acquisition

The Acquisition is considered to be relatively low-risk with substantial potential for near-term cash flow. Significantly, there is no remaining drilling risk, with all five wells having already been drilled successfully to target depth. As such, it provides an excellent complement to (and funding source for) shareholders' principal interest, the higher risk, higher upside Paradox Basin development. No federal tax payments will be payable in the short-term as profits can be offset against Zephyr's historic tax losses.

Based on the DUC wells coming online, Zephyr's assessment of the economics of the Acquisition very positively suggest payback in just one-year. Anticipating H2 2021 average production of 720 boepd, up to US$8 million of undiscounted cash flow is seen accruing to Zephyr over the following 12 months (or a total prospect of US$15m), which will be available for deployment into the Paradox development (or into additional projects). This suggests the Acquisition brings with it a 2P Internal Rate of Return ('IRR') of 47% at an oil price of US$60/bbl, a 2P net present value at a 10% discount rate (NPV10%) of US$4.3 million and a cash flow breakeven oil price of US$36.69/bbl.

Zephyr has a conditional agreement with the Seller providing exclusivity for it to acquire the Bakken Interests by 31 March 2021 for an amount totalling approximately US$4 million. This primarily represents the outstanding historical capital expenditure due to the Operator, with the balance of less than 8% being payable to the Seller, equating to less than US$1.00 per proved boe acquired. Upon completion of the Acquisition, Zephyr will be responsible for payment of future capital expenditure obligations on the Bakken Interests to complete the DUCs, which will be paid directly to the Operator and is estimated to be approximately US$4.2 million, This will become due after the wells are completed (currently scheduled for May 2021). Therefore, total historical and future capital expenditure on the Bakken Interests payable by the Group is estimated to be approximately US$7.9 million, equating to US$17.35/boe acquired, with first revenue from the DUC wells expected by August 2021. Zephyr has already completed all necessary financial, technical and commercial due diligence with respect to the proposed Acquisition.

Paradox project update and next steps

Zephyr's management has estimated that the cost of the Paradox Lateral well will be approximately US$3.5 million. Funds from the second tranche of the Placing will be allocated towards drilling this sidetrack well, which is currently expected to be undertaken this coming July. An additional part of the second tranche, approximately US$1.7 million, will also be allocated to further support and accelerate the development build-out of the Paradox Project. The economics of the Paradox Lateral have been based on its 2C estimate, which includes:

- A single-well net present value of c.US$8.2 million at US$60.00/bbl based on a 10% discount rate (NPV10%).
- A cash flow breakeven oil price of US$20.55/bbl.
- A single-well estimated ultimate recovery of 694,000 boe.

The Board's decision to proceed with the Paradox Lateral was made following the initial analysis of the significant reservoir data that was obtained from the drilling operations on the State 16-2 well completed in January 2021. This data included 113 feet of continuous core obtained from the Cane Creek reservoir, from which initial analysis provided further evidence of hydrocarbon saturation. The structure to be drilled has comparable geometry and form to other productive structures found within the neighbouring Cane Creek Field, being characterised by multiple seismic indicators along its length that may represent natural fracture networks within the reservoir itself. Having integrated this with the recently acquired log data, existing 3D seismic data, and geologic and regional analogue analysis, management considers there is a strong justification to proceed with a targeted spud date of July 2021, subject to final permit approval, in expectation of delivering initial oil production. Significantly in this respect, analysis and interpretation work on the multiple shallower reservoir targets continues to progress. Initial results have provided encouraging evidence for the presence of multiple stacked continuous oil and gas plays, although significant additional data remains to be processed and analysed over the coming months.

Successful fundraise should enable Zephyr to pursue significant upside potential beyond Cane Creek

Zephyr is poised to transform itself into a self-sustaining platform with financial flexibility that will enable it to independently pursue significant upside potential that it believes exists in the Paradox Project.

The proposed Bakken Project acquisition has been very carefully selected to offers a relatively low risk means to generate substantial cashflows for reinvestment into the higher risk, potentially higher return opportunity. With funding now seemingly secured to drill its first production target this year, the Board has taken a major step towards unlocking substantial prospective value from the Paradox within its own timelines. Indeed, the combination of a funded Paradox drilling programme and a cash generating Bakken Project should provide capacity to resource any future potential exploration opportunities on the additional 11 reservoirs identified above and beyond the principal Cane Creek reservoir target.

Zephyr's current Paradox acreage of c.25,353 acres is held through multiple leases with variable expiry dates. These are estimated to hold an approximate Net 2C contingent recoverable resources of 12 million barrels of oil equivalent ('mmboe') in the Cane Creek reservoir alone, for which a Competent Persons Report ('CPR') prepared by Gaffney Cline & Associates in June 2018 estimated a net present value of approximately US$156million, using a flat oil price of US$60 per barrel having applied a ten percent discount rate. Beyond this, however, its Board considers further substantial upside potential exists from multiple additional zones thought to be productive and that data secured from the State 16-2 well is expected to help further define. In this respect, it is important to note that the US Geologic Survey estimates a basin-wide, mean potential 1.2 billion boe in the Cane Creek reservoir alone, indicating a substantial potential yet to be targeted.

The coming weeks and months can be expected to see a busy diary in respects of Zephyr's corporate and operational activity. This will include the completion of the Acquisition, first Bakken oil production and revenues for the Group, the Bakken well completions, the drilling of the State 16-2 lateral well targeting first production in the Paradox and the release of additional analysis of the overlying reservoir zone in the Paradox. With all tranches of grant funding having been collected on schedule, along with the new equity funding announced today, Zephyr appears to have secured sufficient cash visibility to pursue value from both its Paradox Project and other strategic ventures on behalf of shareholders. Such optionality is likely to increase the attractiveness of the asset for prospective strategic and industry partners, suggesting that the deep discount to the CPR valuation along with the straightforward economics of its newly acquired participation in the Bakken Interests, is still far from adequately reflected in the Group's present £26.9 million (post-Transaction) market capitalisation.

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