Zephyr Energy plc

Zephyr yesterday provided shareholders with a number of news updates covering Group operations. Significantly this includes confirmation that the Board has officially delivered a key corporate objective, that of becoming a cash-flowing oil producer. As such, Zephyr has now successfully transformed into a fully-funded, self-sustaining platform with the potential for significant organic growth from the forthcoming drilling programme on its Paradox project. Individually, the news items comprise an update on the Group's recently acquired non-operated working interests in North Dakota, USA (the 'Whiting wells"), the acquisition of additional near-term production interests in the nearby area (the 'Continental acreage'), and further details regarding drilling preparations for its flagship asset, State 16-2 CC LN well, in the Paradox Basin that remain on schedule. With the next few months expected to remain news flow heavy on all fronts, as the Board targets initial production on its Paradox project, further defines the Paradox resource and potentially begins to generate significant cash flow from the Group's non-operated asset portfolio, including today's newly acquired asset, further key objectives look set to be ticked-off.

Stock Data

Share Price:	3.05p
Market Cap.:	£37.3m
Shares in issue:	1221.8m
52 week high/low	3.30p./0.42p

Company Profile

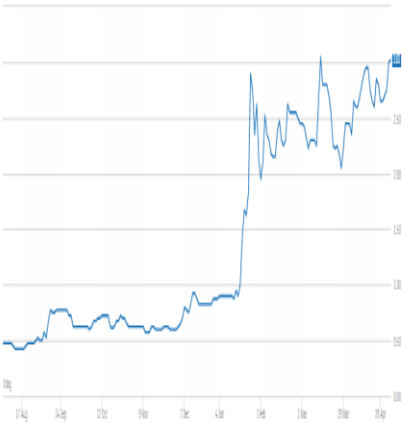
Sector:	Oil & Gas
Ticker:	ZPHR
Exchange:	AIM

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.

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TPI acts as sole broker to Zephyr Energy plc.

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First monthly revenue payment for production received

Something of a landmark moment for Zephyr. Having received its first monthly revenue for production from its interest in the Iverson well, the payment of US$140,662 is related to volumes produced in the month of February, during which net production averaged 110 barrels of oil equivalent per day ('BOE').

The recently acquired Whiting wells target production from the Bakken and Three Forks Formations in the Williston Basin of North Dakota, USA. They consist of non-operated working interests in five wells located across three separate pads:

- The Iverson 11-14HU well, a well which is currently producing.
- The S-Bar 11-7HU and 11-7TFHU wells, which are drilled but uncompleted ("DUC") wells.
- The Feehan 11-9HU and 11-9TFHU wells, which are also DUC wells.

Well ahead of the Operator's expectations, completion operations are already underway on the four S-Bar and Feehan DUC wells. It is expected that all DUC wells will be subsequently tied into infrastructure and achieve first production by the end of July, with Zephyr expected to receive monthly revenue payments for production from all five by September 2021. The resulting cashflows, which will be sheltered from federal tax due to the Group's historical tax loss position of c.US$16 million, will be utilised to fund additional development of the Paradox Basin project or to acquire other attractive non-operated assets such as the Williston acquisition announced yesterday.

Acquisition of additional interests

Zephyr also confirmed its c.US$170,000 acquisition (from existing cash resources) of 11.6 acres in the Williston Basin, North Dakota which gives it working interests in a drilling spacing unit ('DSU') operated by Continental Resources Inc. ('Continental'). Despite the modest upfront cost, this offers potential to participate in 24 relatively low risk, near-term production wells over the coming two years. Being well located and providing both near-term drilling exposure and future drilling optionality, the Board considers this acreage has potential to provide attractive cash flow returns with initial revenues from the acquisition expected to be received in the second half of this year.

Based on the continued improvement in drilling costs and presently robust oil price environment, these interests appear to provide an ideal complement to the Group's growing portfolio of non-operated production assets. Continental has already commenced drilling two initial wells on the DSU ('Initial wells'), with up to an additional 22 future wells ('Future wells') forecast to be drilled by 2023.

- For the Initial wells currently being drilled, Zephyr's forecasted net capital expenditure ('capex') is approximately US$135,000 and will be funded from existing cash resources.
- For the 22 Future wells proposed, Zephyr's net capex is forecast to be approximately US$710,000, which could also be funded from the Group's internal cash resources.
- Capex on the Future wells is discretionary, and Zephyr's Board of Directors will elect whether to participate in those wells on a case-by-case basis.

The Continental acreage has, net to Zephyr, estimated 2P reserves (from all 24 wells) of circa 60,000 barrels of oil equivalent ("BOE"), which were acquired at a price of approximately $2.83 per BOE. The 1P reserves on the Continental acreage are, net to Zephyr, estimated at circa 41,000 BOE and the 3P reserves at circa 72,000 BOE.

Drilling of the State 16-2 CC LN well remains on track for July 2021

Good progress continues to be made with permitting, detailed drill planning and vendor selection related to the drilling of the State 16-2 CC LN well. As such, it remains on track to drill the well in July 2021.

In addition to this, detailed resource evaluation work remains ongoing, both in regard to the potential in overlying reservoirs above the Cane Creek reservoir, and in respect to the potential for a resource play development across the Company's Paradox leasehold. Zephyr continues to work with its partners at the University of Utah, the Utah Geological Survey and third-party consulting firms to develop an updated geological model and resource estimates.

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

Investors can expect significant news flow on all fronts in the coming months. While this will include progress updates from the Group's recently acquired and expanding portfolio of non-working interests, of principal interest is likely to be the completion of evaluation work on the Group's flagship asset, the Paradox project, as management targets initial production and further definition of its resource. The Group'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 CC LN 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.

Now well-resourced following March's successful £10m (gross) fundraise plus tranches of grant funding, 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 participations in the Bakken and Williston Basin interests still remain far from adequately reflected in the Group's present £37.3 million market capitalisation.

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