

Stock Data

Share Price:	6.90p
Market Cap.:	£107.72m
Shares in issue:	1,560.7m
52 week high/low:	8.78p/2.30p

Company Profile

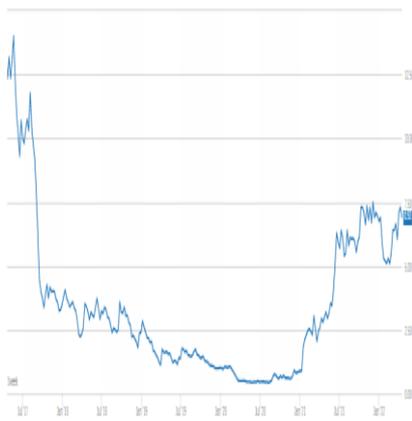
Sector:	Oil & Gas
Ticker:	ZPHR
Exchange:	AIM

Activities

Zephyr Energy ('Zephyr', 'the Group') is an independent oil and gas E&P company with a strategic focus on carbon-neutral hydrocarbon development projects in the Rocky Mountain region of the US.

www.zephyrplc.com

5-year share price performance



Source: [LSE](https://www.lse.com)

Past performance is not an indication of future performance.

Contact details

Tel: 0203 657 0050
Email: info@turnerpope.com
Web: www.turnerpope.com

Andrew Thacker
Corporate Broking and Sales

Barry Gibb
Research Analyst

TPI acts as sole broker to Zephyr Energy.

Attention is drawn to the disclaimers and risk warnings at the end of this document.

Retail clients (as defined by the rules of the FCA) must not rely on this document.

Zephyr Energy plc

Perfect timing! As suggested in its production update announcement of 8 April 2022, Zephyr has now hedged a substantial portion of its forecast non-operated production. A programme (the 'Programme') related to 328,000 barrels ('bbls') of oil production from its non-operated asset portfolio over the next two years is designed to ensure receipt of over US\$30 million of forecast revenue during that period. In so doing, the Programme has been structured to provide cashflow surety related to the Group's senior debt obligations, as well as to materially de-risk funding requirements for the proposed upcoming drilling campaign at its flagship Paradox Basin project (the "Paradox project"). Accordingly, by taking advantage of the strong current oil and natural gas pricing environment, management expects all of its forecast capital commitments, for at least the next 12 months, to be fully funded through a combination of existing cash resources and cash flow from production. This provides an ideal backdrop for release of key findings from the Competent Persons Report ('CPR') on the Paradox project that are expected early next week, with planning for the drilling of three additional wells on the Paradox project in the second half of this year now well underway. Assuming delivery in line with expectations, along with the fact that the original acquisition economics of the Williston Basin assets now look to have been particularly conservative, there appears to remain fairly substantial upside on the Group's current valuation.

(Risk warning: Future performance and forecasts are not a reliable indicator of future results.)

Zephyr enters crude oil commodity swap agreements

Under the terms of the Programme, Zephyr entered into crude oil commodity swap agreements, which settle on a monthly basis, at the following prices:

- Q2 2022: 64,000 bbls at US\$100.80/bbl
- Q3 2022: 57,000 bbls at US\$98.00 /bbl
- Q4 2022: 50,000 bbls at US\$94.55 /bbl
- 1H 2023: 69,000 bbls at US\$90.05 /bbl
- 2H 2023: 61,000 bbls at US\$85.40 /bbl
- 1H 2024: 27,000 bbls at US\$82.20 / bbl

The Programme accounts for less than 50% of the Group's total forecast production from all reserve categories on its non-operated portfolio over the next two years, leaving considerable additional exposure to commodity price fluctuations. Zephyr's Board notes, however, that it will continue to monitor commodity prices on a regular basis and may layer on additional hedges if and when it deems appropriate.

Zephyr estimates that the cash operating cost/bbl from its Williston Basin production will average approximately US\$16/bbl over the next 24 months, which implies strong profit margins for the hedged barrels. Significantly in this respect when Sproule International, the global energy consulting firm, completed its CPR on Zephyr's non-operated portfolio in November 2021, it used oil prices of US\$71 for 2022, US\$68 for 2023 and US\$66 in 2024 for its valuation, suggesting the implied valuation of Zephyr's non-operated portfolio has increased materially as a result of the Programme.

With WTI presently trading a little over US\$102.5/bbl and reputable forecasting bodies,

such as The Economy Forecast Agency, providing monthly consensus forecasts for the same prospective three years that suggest prices ranging from a low of US\$107.58 (May 2022) to a high of US\$193.88 (April 2024), Zephyr's management retains significant opportunity to lock in still greater value from the remaining majority of its forecast non-operated production, and 100% of its produced natural gas volumes, which still retain exposure to future changes in commodity prices.

Key findings from Sproule's Paradox project Competent Persons Report anticipated early next week

Originally expected to be released in March 2022, Sproule is now expected to release the key findings of its CPR covering the Zephyr's flagship project (including overlying reservoirs) in the Paradox Basin, Utah, early next week. This is expected to provide significant insight to the Paradox Project's upside, potentially with 1 billion barrels of oil equivalent ("boe") in place, of which between 5% to 15% considered recoverable.

Production tests have already indicated a rate constrained average of 716 boe/d with peaks of 1,083 boe/d, all with very limited pressure drawdown. Modelling suggests the well is capable of production plateau rates of 10 million cubic feet of gas per day and 500 bopd of liquids (average total of 2,000 boepd). Potential risks remaining to be managed include water saturation, reservoir pressure and hydrocarbon fluid type. Based on at least 150 (unrisked) locations to drill, however, a successful three-well programme in 2022 could lead to a significantly larger FY 2023 development and delineation programme.

Importantly in this respect, the 60 API liquids produced are considered ideal for blending with heavier Utah crude and currently command a premium to WTI price per barrel at the refiner. Significant gas volumes offer potential to be tied into local gas infrastructure (for which assessment should be completed in 2H 2022) in anticipation of first sales being made in 2023 or otherwise sold on site to generate power for a co-located crypto mining facility(s). Within this, management continues to stress its efforts to be a responsible steward of both investors' capital and the environment in which Zephyr works.

(Risk warning: Future performance and forecasts are not a reliable indicator of future results.)

THIS DOCUMENT IS NOT FOR PUBLICATION, DISTRIBUTION OR TRANSMISSION INTO THE UNITED STATES OF AMERICA, JAPAN, CANADA OR AUSTRALIA.

Conflicts

This is a non-independent marketing communication under the rules of the Financial Conduct Authority ("FCA"). The analyst who has prepared this report is aware that Turner Pope Investments (TPI) Limited ("TPI") has a relationship with the company covered in this report. Accordingly, the report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing by TPI or its clients ahead of the dissemination of investment research.

TPI manages its conflicts in accordance with its conflict management policy. For example, TPI may provide services (including corporate finance advice) where the flow of information is restricted by a Chinese wall. Accordingly, information may be available to TPI that is not reflected in this document. TPI may have acted upon or used research recommendations before they have been published.

Risk Warnings

Retail clients (as defined by the rules of the FCA) must not rely on this document.

Any opinions expressed in this document are those of TPI's research analyst. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price.

The value of securities, particularly those of smaller companies, can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of smaller company securities may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. Past performance is not necessarily a guide to future performance and forecasts are not a reliable indicator of future results.

AIM is a market designed primarily for emerging or smaller companies and the rules of this market are less demanding than those of the Official List of the UK Listing Authority; consequently, AIM investments may not be suitable for some investors. Liquidity may be lower and hence some investments may be harder to realise.

Specific disclaimers

TPI acts as sole broker to Zephyr Energy plc ("Zephyr Energy") which is listed on the AIM Market of the London Stock Exchange ('AIM'). TPI's private and institutional clients may hold, subscribe for or buy or sell Zephyr Energy's securities.

Opinions and estimates in this document are entirely those of TPI as part of its internal research activity. TPI has no authority whatsoever to make any representation or warranty on behalf of Zephyr Energy.

General disclaimers

This document, which presents the views of TPI's research analyst, cannot be regarded as "investment research" in accordance with the FCA definition. The contents are based upon sources of information believed to be reliable but no warranty or representation, express or implied, is given as to their accuracy or completeness. Any opinion reflects TPI's judgement at the date of publication and neither TPI nor any of its directors or employees accepts any responsibility in respect of the information or recommendations contained herein which, moreover, are subject to change without notice. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price. TPI does not undertake to provide updates to any opinions or views expressed in this document. TPI accepts no liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document (except in respect of wilful default and to the extent that any such liability cannot be excluded by applicable law).

The information in this document is published solely for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. The material contained in the document is general information intended for recipients who understand the risks associated with equity investment in smaller companies. It does not constitute a personal recommendation as defined by the FCA or take into account the particular investment objectives, financial situation or needs of individual investors nor provide any indication as to whether an investment, a course of action or the associated risks are suitable for the recipient.

This document is approved and issued by TPI for publication only to UK persons who are authorised persons under the Financial Services and Markets Act 2000 and to professional clients, as defined by Directive 2004/39/EC as set out in the rules of the Financial Conduct Authority. This document may not be published, distributed or transmitted to persons in the United States of America, Japan, Canada or Australia. This document may not be copied or reproduced or re-distributed to any other person or organisation, in whole or in part, without TPI's prior written consent.

Copyright © 2022 Turner Pope Investments (TPI) Limited, all rights reserved.