

Stock Data

Share Price:	7.65p
Market Cap.:	£119.4m
Shares in issue:	1,560.7m
52 week high/low:	8.78p/2.45p

Company Profile

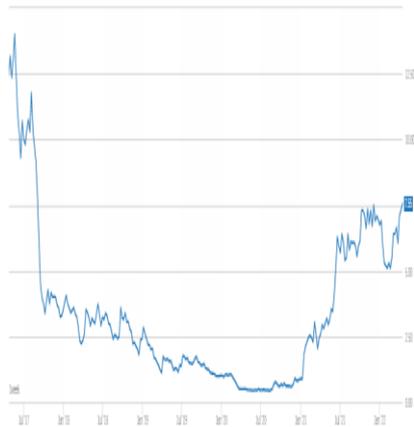
Sector:	Oil & Gas
Ticker:	ZPHR
Exchange:	AIM

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.

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Zephyr Energy plc

Zephyr has published much-anticipated highlights from its updated Competent Person's Report ('CPR') covering its assets in the Paradox Basin, Utah (the 'Paradox Project'). More fully recognising its scale and substantial long-term production potential, the independent reserves and resource evaluation not only permits management to book first Paradox Basin Proved Reserves based on the success of State 16-2, but also details a substantial increase on the 2018 CPR's Contingent Resource estimates across the Cane Creek Reservoir along with a Maiden Prospective Resource Estimate. Combining Zephyr's total Paradox Basin 2P Proved Reserves with those of its existing Williston Basin non-operated portfolio now produces an estimated net present value at a ten per cent discount rate ('NPV-10') of over US\$111 million (up from zero value ascribed in 2018) with substantial multiples of additional upside potential from success cases related to its contingent and prospective resources. Management's ambition is now to increase all reserve and resource classes by this time next year and, ultimately to unlock the next unconventional onshore resource play in the U.S. Indeed, the fact that Sproule has estimated the Paradox Project's unrisks recoverable (3P/3C/3U) boe to be more than 3x previously stated management guidance demonstrates the true scale of this opportunity. Given the cash now being generated through the Group's portfolio of non-operated working interests, its ability to deliver exactly this through funded, organic growth now appears to be significant.

Key highlights of Paradox Basin 2022 CPR

- **2P Reserves: First Paradox Basin reserves booked based on State 16-2 success:**
 - 2.1 million boe - An increase from zero boe from CPR of 22 June 2018**.
- **2C Resources: Significant increase to estimate across the Cane Creek Reservoir:**
 - 27 million boe - An increase of 121% from 12.1 million boe from 2018 CPR.
- **Prospective resources: Initial 2U prospective estimates from overlying reservoirs:**
 - 203 million boe unrisks (68 million boe risks at average 33% CoS*).
- **Much higher combined base-case 2P/2C/2U unrisks recoverable estimate:**
 - 231 million boe net to Zephyr, a substantial rise on its previous estimate.
- **Combined unrisks recoverable 3P/3C/3U boe a multiple of previous guidance:**
 - Estimated by Sproule at an exceptional 506 million boe net to Zephyr, a multiple of more than 3x the previously published management guidance.

*CoS= Chance-of-Success ** Completed by Gaffney Cline & Associates

Total 2P Proved Reserves NPV-10 estimate now over US\$111 million

In determining the NPV-10 for the reserves and resources, Sproule International ('Sproule'), the leading independent global energy consulting and advisory firm engaged to compile the 2022 CPR, utilised a WTI oil price forecasts of US\$93/bbl in 2022, US\$83/bbl in 2023, and US\$73/bbl in 2024, with a further US\$5 per barrel deduction for price differential.

Sproule used a Henry Hub gas price of US\$5.00/mmbtu in 2022, US\$4.25/mmbtu in 2023, and US\$3.25/mmbtu, with a further gas price differential of \$1.25 per Mscf reduction from Henry Hub, a heating value of 1000 btu per Mscf and a shrinkage of 5% for losses due to surface facilities. The financial model was structured prudently such

that prices and costs are escalated at 2.0% per annum until the price doubles, and are then held flat.

Sproule audited the crude oil, natural gas, and field condensate reserves and contingent resources and the associated future net revenue attributable to the White Sand Unit ('WSU') and Cane Creek DSU ('CC DSU') located in the Paradox Basin, with an effective date as of 31 March 2022. It also conducted an audit of the Prospective Resources attributable to the similarly located WSU located as of the same date. All estimates were prepared in accordance with generally accepted petroleum engineering and evaluation principles as set forth in the SPE Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information.

Across the 30,700 acres of Zephyr's Utah assets considered in the study, Sproule estimates that total unrisks recoverable boe, on a 2P/2C/2U basis net to the Company, is over 231 million boe. On a 1P/1C/1U basis, net unrisks recoverable boe is estimated at 57.5 million boe and on a 3P/3C/3U basis the unrisks recoverable boe is estimated at a quite exceptional 507 million boe, all net to the Group.

Significantly, Sproule's 3P/3C/3U combined estimates, which were assessed on individual assessment well-by-well, are a factor of over 3x Zephyr's previously published management guidance (alternatively employing United States Geological Survey ('USGS') data), which had utilised an estimated 1 billion boe of hydrocarbons initially in place ('HCIIP') and a 5-15% recovery factor. In addition, a further 6,500 acres of Zephyr's Paradox Basin leaseholding remains to be evaluated and was not included in today's CPR.

Paradox Basin CPR 2022 – Summary Developed Reserves, Contingent Resources & Prospective Resources

Paradox Basin	Net Attributable to Zephyr		
	1P	2P	3P
Developed Reserves (boe) – Cane Creek Reservoir	537,000	2,123,000	6,811,000
NPV-10	\$1,384,000	\$22,612,000	\$104,548,000

Paradox Basin	Net Attributable to Zephyr		
	1C	2C	3C
Contingent Resources (boe) – Cane Creek Reservoir	-	26,870,000	81,130,000
NPV-10	-	\$ 148,028,000	\$894,112,000

Paradox Basin	Net Attributable to Zephyr		
	1U	2U	3U
Net Unrisks Prospective Resources (boe) - Overlying Reservoirs *	57,500,000	203,000,000	419,000,000
Net Risks Prospective Resources (boe) – Overlying Reservoirs* **	23,000,000	68,000,000	112,000,000

*Net present value economics at a discount rate of 10 per cent ("NPV-10") were not evaluated for Prospective Resources in the Sproule report

**Risks CoS avg. 37%

Source: Zephyr, [RNS of 26 April 2022](#)

Based on the Paradox Project's total Proved Reserves NPV-10 of US\$22.6 million, plus the Group's Williston Basin non-operated proved reserves (as accounted by Sproule in further independent CPR published on 22 November 2022) minus production to date, based on WTI prices as of 22 April 2022 (inclusive of the two-year hedging programme the Group implemented on 21 April 2022), the Group has established a total 2P Proved Reserves NPV-10 estimate of over US\$111 million.

Sproule Breakdown of Paradox Basin Net Reserves and Net Present Value Assessment*

	Net Reserves		Net Present Value	
	Oil & Condensate (bbls)	Gas (Million square cubic feet)	0% Discount ((US\$))	10% Discount (US\$)
White Sand Unit				
1P	25,000	842	2,376,000	2,126,000
2P	206,000	6,873	19,191,000	10,831,000
3P	696,000	23,187	97,431,000	36,980,000
Cane Creek DSU				
1P	344,000	163	3,091,000	-742,000
2P	715,000	340	28,985,000	11,781,000
3P	2,085,000	990	127,988,000	67,568,000

*Note some columns subject to rounding errors

Source: Zephyr, [RNS of 26 April 2022](#)

Sproule Breakdown of Paradox Basin Net Contingent Resources and Net Present Value Assessment*

	Net Contingent Resources		Net Present Value	
	Oil & Condensate (bbls)	Gas ² (MMscf)	0% Discount (M\$)	10% Discount (US\$)
White Sand Unit				
1C ¹	0	0	0	0
2C	3,420,000	108,288	222,596,000	88,009,000
3C	10,414,000	329,787	1,223,945,000	511,662,000
Cane Creek DSU				
1C ¹	0	0	0	0
2C	5,006,000	2,378	196,818,000	60,019,000
3C	14,596,000	6,933	899,310,000	382,450,000

*Note some columns subject to rounding errors

Source: Zephyr, [RNS of 26 April 2022](#)

¹Contingent Resources sub-marginal (uneconomic) ²Sales gas (includes 5% loss due to facilities)

Summary of Zephyr's Net Prospective Resources

	1U	2U	3U
Gas (MMscf)	499,180	1,559,890	2,889,240
Oil and Condensate (bbls)	12,480,000	77,990,000	216,690,000

Source: Zephyr, [RNS of 26 April 2022](#)

Sproule report illustrates potential Contingent & Prospective Resources worth well in excess of US\$1 billion

The CPR 2022 highlights the Paradox Basin's substantial remaining potential. It also equips TPI to undertake its own valuation against which to set a price target for Zephyr's shares, something it hopes to undertake shortly. While the range in values illustrated in Sproule's report presently remain very wide and recognising that there are still significant underlying technical/operational risks to be surmounted, Zephyr's management and exploration team have demonstrated a high level of intuition along with the capacity to meet such challenges through carefully calculated processes. It now aims to build on its current knowledge and track record in order to further accelerate the value growth from its existing portfolio. In 2H 2022, for example, plans and funding are already in place to drill three additional wells in order to further delineate and increase overall understanding of the Paradox asset base. Management's goal is to have assessed potential upside and determined the first of a series of follow-on next steps before the end of 2022, followed by increases in all reserve and resource classes during Q2 2023.

The initial well drilled on the acreage, the State 16-2 LN-CC, appears promising with production tests which 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.

Significantly in this respect, funding for the next phase of development of the Paradox Project will be provided from the Group's Williston Basin non-operated assets. These delivered Q1 2022 operational production rates that averaged 1,643 boepd, for which nearly half of the next two years' production has already been hedged at an average of US\$92.70/bbl. Zephyr also anticipates generating production and additional cashflow from its previously drilled and completed State 16-2 well in the coming months.

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