

Stock Data

Share Price:	6.55p
Market Cap.:	£102.2m
Shares in issue:	1,560.7m
52 week high/low:	8.78p/2.30p

Company Profile

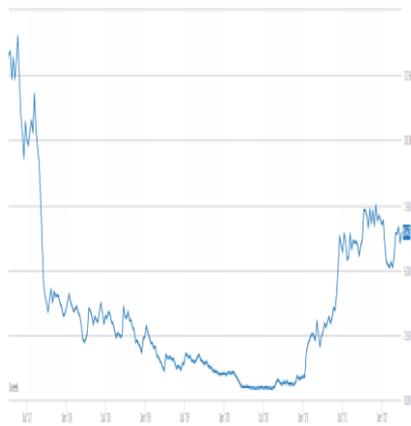
Sector:	Oil & Gas
Ticker:	ZPHR
Exchange:	AIM

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.

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TPI acts as sole broker to Zephyr Energy.

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Zephyr Energy plc

Zephyr has released a production update from its now fully-integrated, non-operated Williston Basin portfolio. Q1 2022 operational production rates averaged 1,643 barrels of oil equivalent per day ('boepd') net to Zephyr, which was comfortably ahead of management's expectations and represented a record-breaking production quarter for the Group. As of end-March 2022, Zephyr had a total of 185 non-operated wells available for production, including 7 wells which came online during the first quarter, plus a further 16 expected over the next six months. As a result, Zephyr received cash flow of c.US\$6 million from its non-operated assets in March 2022, being the first month to include contributions from the additional Williston Basin assets ('the Acquisition') that were secured immediately prior to the surge in commodity prices that resulted from the onset of war in Ukraine. With such conditions widely expected to be sustained for some months to come, substantial funds are expected to remain available for ongoing development of the Group's flagship Paradox project ('the Paradox Project'), for which management is planning a three-well drilling programme that will commence in 2H 2022. The Board also expects to be in a position to release results from its much-anticipated Paradox Basin Competent Persons Report ('CPR') in the coming days. Assuming this is delivered in line with expectations, along with the fact that the original economics of the Acquisition 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.)

Timely acquisition of additional Williston Basin assets

The acquisition of substantial additional Williston Basin assets that was first proposed on 22 November 2021 and completed on 17 February 2022 appears to have been particularly timely. Benchmark WTI crude, that was trading around US\$68.61 at the time of the first announcement, spiked to high of US\$123.70 on 7 March 2022 as a direct response to Russia's invasion of Ukraine, aided by sharply recovering consumer demand as the world emerged from the COVID-19 pandemic along with delays by leading oil-producing nations in being able to restart production that had been mothballed during 2020. Now trading at around US\$95.88, a level that it is widely expected to be sustained or surpassed over the coming months as western consumers seek to secure alternative international supplies ahead of winter with the EU Commission, for example, having proposed on 11 March 2022 that the bloc cut its Russian energy dependence by two-thirds by the year end, before going on to drive that to zero "well before" 2030.

Strong Q1 2022 production from Zephyr's non-working interests

Having started calendar 2022 with working interests ('WIs') in just 15 non-operated wells, the Acquisition resulted in Zephyr acquiring additional WIs in 163 producing wells. 7 additional wells came on line during the first quarter of 2022, providing the Group with WIs totalling 185 wells on or available for production by the end of March. The assets also have longer term upside as the transaction includes 47 further proved undeveloped ('PUD') well locations for low-risk drilling activity. Altogether, they are spread across 22 separate drilling pads in Mountrail County, North Dakota and are operated by the highly experienced player Whiting Petroleum. Forward visibility also appears to be good, given that independent consultant, Sproule, the global energy consulting firm, has ascribed over 2.76 mmbob of net reserves to the assets.

First quarter operational production rates from the Group's entire Williston Basin portfolio averaged 1,643 boepd net to Zephyr, according to field estimate data. Further volume and price data will be published quarterly, once detailed production and sales information becomes available. As a result, net cash receipts to Zephyr in March 2022 alone were of c.US\$6 million, with 80% of produced volumes being in oil. This has been achieved with an exceptionally low operating expense of c.US\$13.91/boe, suggesting a cash margin presently in excess of 80%.

Although management has not hedged any production to date, anticipation of a high forward price volatility amid traders juggling scenarios of global production shortfalls against the possibility of major international economies slowing sharply in response to surging inflation, means it is planning to hedge a substantial portion of its forecast non-operated production in the near future.

Sproule's Paradox Competent Persons Report anticipated in coming days

Originally expected to be released in March 2022, Sproule is expected to release its CPR covering the Zephyr's flagship project (including overlying reservoirs) in the Paradox Basin, Utah, in the coming days. This is expected to provide significant insight to the Paradox Project's upside, potentially with 1 billion 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.

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