

#### Stock Data

|                   |             |
|-------------------|-------------|
| Share Price:      | 4.55p       |
| Market Cap.:      | £71.01m     |
| Shares in issue:  | 1,560.75m   |
| 52 week high/low: | 8.78p/3.75p |

#### Company Profile

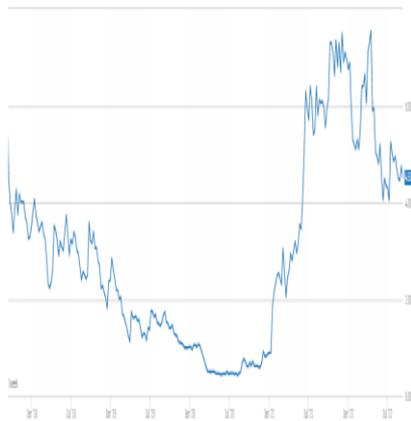
|           |           |
|-----------|-----------|
| Sector:   | Oil & Gas |
| Ticker:   | ZPHR      |
| Exchange: | AIM       |

#### Activities

Zephyr Energy plc ('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](http://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 joint broker to Zephyr Energy plc.

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## Zephyr Energy plc

Zephyr has announced its entering into a binding agreement (the 'Agreement') to acquire a package of oil and gas assets located on and around the Group's Paradox project, Utah (the 'Paradox project'). Enabling a substantial reduction in its anticipated forward capital requirements, the Agreement comprises 21 miles of natural gas gathering lines along with the Powerline Road gas processing plant (the 'Plant', which is not currently in operation), rights of way for additional gathering lines, active permits, five existing wellbores and additional acreage (the 'New Acreage') which is partly contiguous to Zephyr's operated White Sands Unit (the 'WSU'). The consideration for the asset package is US\$750,000, which will be satisfied by a payment from existing cash resources plus the assumption of all future decommissioning, plugging and abandonment liabilities associated with the assets (estimated at US\$2.5 million in today's terms). The Board considers this surface infrastructure will accelerate its move from its current phase of value delineation to a programme of tangible development that will facilitate cashflows from the Paradox project in a more rapid timeframe. Given that a three well drill programme is expected to commence on the Paradox project in 2H 2022 (funding for which is being provided by the Group's Williston Basin non-operated assets), Zephyr looks set to remain highly active in its run-up to 2023. This will be key to the Group closing in on its ultimate goal of unlocking the next great unconventional onshore resource play in the US.

### Agreement substantially reduces the Group's capital requirement

The acquisition of this asset package will allow Zephyr to substantially reduce the capital required to build the necessary gas export infrastructure for its forecast gas production from the Paradox project, along with opportunity for new gross drilling locations with 2C contingent resources plus additional acreage. Estimates provided by the Board suggest their potential total replacement cost, NPV10 and reserve value to be of the order of US\$28 million. Given the Group's significant potential gas resource, strong current pricing and increasing demand for US domestic natural gas, this therefore represents an important value-added move for shareholders ahead of its commencing further development of the Paradox project. The assets proposed for acquisition under the Agreement include:

- Twenty-one miles of six-inch gas gathering line, with an estimated replacement cost value of US\$8.8 million, which will substantially reduce the capital and costs required to export the Group's gas production from the WSU. The acquired gathering lines tie directly into the Plant.
  - One of the acquired lines passes immediately alongside the site of the planned State 36-2 well (the first in a series of Paradox wells to be drilled in the upcoming drilling programme).
  - Additional rights of way for future pipelines are also included in the Agreement.
- The Plant, while not currently in operation, is well suited for brownfield redevelopment and contains useable pre-existing infrastructure and related permits. It is ideally located at the head of 16-inch gas export pipeline recently purchased by Dominion Energy Inc. (NYSE: D), and can also act as a supply base for other WSU operations. The processing plant has an estimated replacement cost value of US\$1.8 million.
- 1,160 acres which comprises the final leasehold acreage parcel under Zephyr's

existing 3D seismic, giving Zephyr a complete and contiguous 20,000 acres in the WSU with 3D coverage. Management estimates that this portion of acquired acreage will contribute:

- 2 gross drilling locations with 2C contingent resources from the Cane Creek reservoir of 1.25 million barrels of oil equivalent with a net present value at a ten per cent. discount rate ('NPV-10') of approximately US\$17 million.
- 4,320 additional acres, in locations near to the WSU, which are not covered by the pre-existing 3D seismic data but with resource upside potential in a success case.
- Five existing vertical wells, four of which were planned for plugging and abandonment ('P&A'), all of which are expected to have re-use potential under Zephyr's ownership:
  - The Federal 28-11 well, currently shut in, has near-term workover potential and will have an initial estimated proved developed not producing ('PDNP') reserve value of US\$0.4 million once the well's gas export is online.
  - Two wells with notable prior observations of hydrocarbons which may have additional work over or sidetrack potential.
  - Remaining wellbores which have re-use potential as future salt water disposal and water supply wells, which could substantially reduce future operating and completion costs (subject to State approval).
- A full well database from the Operator.
- The consideration for the assets pursuant to the Agreement is US\$750,000 which will be satisfied by a payment from Zephyr's existing cash resources. In addition, Zephyr has assumed responsibility for all eventual decommissioning and P&A liabilities for the assets (estimated to be approximately US\$2.5 million in today's terms). The acquisition is expected to close by 7 October 2022.

### Acquisition should also provide Zephyr with several critical benefits

As well as allowing Zephyr to reduce the capital needed to build out the gas infrastructure required to sell produced gas volumes into the market, the Agreement completes the acquisition of all key acreage covered by the WSU 3D. It also provides an additional well pad already tied to the pipeline which, in combination with the New Acreage will simplify future development drilling. Although the gas plant is not currently in use, it offers excellent potential for reintroduction to service, potentially acting as a WSU supply base.

The acquired wellbores provide the Group with multiple re-use options over the short to medium term. Along with the wells comes a proprietary well database from the Cane Creek and overlying reservoirs (including wells with notable hydrocarbon shows and prior production). Wellbores that do not become work over candidates have potential as water supply and/or salt water disposal wells, which can substantially reduce our future operating and completion costs as the development progresses.

### Upcoming high impact drilling programme

Zephyr continues with extensive preparatory work related to its upcoming high impact drilling programme. The State 36-2 LNW-CC well, with a 10,000-foot lateral well targeting the Cane Creek reservoir, has been designated as the first of the three wells planned for drilling. Management has already updated its Application for Permit to Drill ('APD') with the Bureau of Land Management ('BLM') to reflect the extended lateral and intends to proceed with drilling operations upon receiving Federal approval and securing a rig contract. All state level approvals related to the State 36-2 LNW-CC well have now been received.

### CPR 2022 illustrated potential Contingent & Prospective Resources worth well in excess of US\$1 billion

Zephyr's active land management strategy appears to be delivering a defensible and growing portfolio of development opportunities, something which is increasingly difficult to replicate in today's regulatory and political environment. Meanwhile, management is focused on recommencing production testing at the State 16-2 LN-CC, for which operational preparations are largely complete and long lead time items already in process. The test will allow for the sale of liquid volumes and, most critically, allow for data generation which will help it evaluate the most effective options for infrastructure development.

Publication of the Group's Competent Person's Report ('CPR') 2022 on 26 April 2022, highlighted Zephyr's substantial remaining

potential in the Paradox Basin. 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 and optimise such challenges through carefully calculated process. It now aims to build on its current knowledge and track record in order to further accelerate the value growth from its existing portfolio. Plans to commence a drilling programme of three fully-funded Cane Creek wells in 2H 2022 will enable further delineation 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 steps before the end of 2022, followed by increases in all reserve and resource classes during 2023.

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 Q2 2022 sales volumes that averaged 1,856 boepd (up from c.1,600 in Q1 2022), for which nearly half of the next two years' production has already been hedged at an average of US\$92.70/bbl. Quarterly revenues totalled US\$14.3 million net to Zephyr, up from US\$11.5 million in the previous period and a 16-fold increase from US\$0.9 million reported one year ago. On 11 August 2022, management also reiterated its previously released 2022 production and revenue guidance of an expected US\$35-40 million in non-operated revenue, net to Zephyr, for FY 2022 based on a forecast production range of 500,000 to 550,000 boe for the year. To this, Zephyr has now also positioned itself to be generating production plus additional cashflow from its previously drilled and completed State 16-2LN-CC well before the start of 2023.

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