

Stock Data

Share Price:	5.89p
Market Cap.:	£93.24m*
Shares in issue:	1,583.02*
52 week high/low:	8.15p/3.75p

*Post-transaction numbers

Company Profile

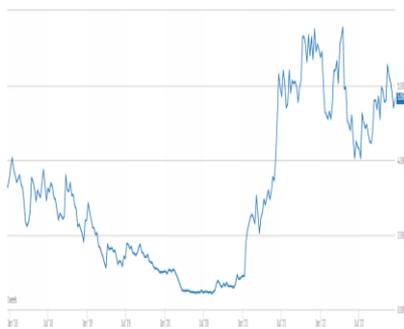
Sector:	Oil & Gas
Ticker:	ZPHR
Exchange:	AIM

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

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

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Zephyr Energy plc

Zephyr has announced two complementary acquisitions that are expected to be substantially accretive for shareholders. These highly strategic moves comprise, (i) The acquisition of the remaining 25% (not presently owned by Zephyr) non-operated working interest ('WI') across the entirety of its operated federal unit in the Paradox Basin (the 'Paradox'); and (ii) The acquisition of non-operated WIs (holdings ranging from 11% to 32%) in presently non-producing wells in the Williston Basin.

The transactions are expected to be immediately accretive to shareholders across all measures, including the Group's reserves and resources. This takes into account the consideration of up to US\$3 million, payable by way of new locked-in ordinary shares for the vendor of the former, while also securing an US\$8 million non-equity bridge loan ('the Loan') facility on favourable terms to part fund (including associated capital expenditure ('CAPEX')) the latter. Near-term catalysts supporting this move include the anticipated success of the flagship asset's ongoing State 36-2 drilling, with a 10,000-foot horizontal lateral potentially adding significant production which, when combined with State 16-2, could be >2000 boepd, with infrastructure being readied in tandem with the additional Williston WIs coming online. Given that the recently acquired gas infrastructure is seen accepting sales volumes in 2H 2023, while the current three-well drilling programme remains amply funded through c.US\$18.5m of liquidity available as of 10 Nov 2022, projected medium term cash flows appear to be sufficient to support exploitation of existing inventory, which includes 2U potential of over 200 million boe across the Paradox. This of course remains key to Zephyr closing in on its ultimate goal of unlocking the next great unconventional onshore resource play in the US.

Immediately accretive across all reserve & resource categories

Zephyr's technical team currently estimate that the Paradox Acquisition adds:

- Over 450,000 boe in 2P reserves;
- Over 7 million boe in 2C Contingent Resources; and
- Over 67 million boe of 2U unrisks Prospective Resources.

While the new Williston Wells are expected to provide a near-term production boost with first sales volumes presently expected in Q1 2023 and for which management estimates:

- Non-operated 2P Reserves being acquired are c.611,000 boe net to Zephyr.

2023 Production Forecasts

Based on certain key assumptions, Zephyr's Board has also provided a 2023 run rate forecasts for its operations in both the Paradox Basin and Williston Basin, as follows:

- Forecast Paradox Basin year end 2023 run-rate: 3,300 boepd (assumes White Sands Unit ('WSU') 100% WI and 50% WI in the Cane Creek DSU production);

- **Forecast Williston Basin non-op portfolio 2023 average: 1,550 to 1,750 boepd** (up from c.1,400 boepd in 2022);
- **Forecast combined year-end 2023 exit-rate: 4,800 boepd** (a c.200% increase in base production, with today's acquisitions increasing total production by 60%).

The above Paradox production estimates were based on the independent 2P forecasts plus installation of 10mmscf/d processing capacity. Anticipated 2023 start-ups include the Slawson wells in March, Cane Creek in July and WSU in October. All projections, of course, remain dependent on Paradox performance tests and timing of first production amongst of new non-operated wells.

As at 2 December 2022, Zephyr had US\$5m available headroom under existing facilities, with a cash position of US\$11.9m. Total debt at this time was US\$23.5m.

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

Acquisition of the remaining 25% WI in Zephyr's operated WSU in the Paradox Basin

Issuance of a standard Authority for Expenditure ('AFE') budgetary document, prepared by the Operator, in this case to list estimated State 36-2 development expenses, required the holder of the 25% WI, Rockies Standard Oil Company LLC ('the vendor'), to make a formal decision within 30 days. Having identified capital constraints suggesting it does not have capacity to fund its pro-rata share of infrastructure improvements or the current State 36-2 drilling operation, Zephyr found itself presented with an attractive opportunity to consolidate 100% of the WI on favourable terms. Accordingly, on 7 December 2022 Zephyr, via its wholly owned subsidiary Rose Petroleum (Utah) LLC, entered into a letter of intent ('LOI') with the vendor for Zephyr to acquire the remaining 25% non-operated working interest across the entirety of the WSU ('the Paradox Acquisition') for a total consideration of US\$3m*. In exchange for the purchase, the Group has agreed to issue the vendor with locked-in equity*, as detailed below:

- **US\$1 million represented by 13,483,095 new ordinary shares, which will be issued by Zephyr based on a share price of 6.05p (representing a circa 5% premium to the Company's mid-market closing share price on 19 December 2022), which is expected to complete in January 2023.**
- **US\$2 million payable on the same basis by the issue of 26,966,189 new ordinary shares upon Zephyr's final investment decision related to the Powerline Road Gas Processing Plant.**
- **The above tranches together will represent c.2.5% of the Group's enlarged share capital and will be subject to a lock-up which will expire at the earliest of: (i) the date that first gas from the State 36-2 Well is sold via the Dominion Energy Utah, LLC ('Dominion Energy') 16-inch gas export pipeline or, (ii) 15 December 2023.**

**Maximum consideration assuming success case conditions are satisfied; £1:US\$0.83 FX rate assumed.*

By increasing ownership in the WSU to 100%, Zephyr will also assume responsibility for an additional c.US\$5 million in near-term CAPEX, of which TPI expects to be split roughly evenly between:

- **The State 36-2 drilling operations.**
- **The near-term build out of transportation infrastructure and gas processing facilities.**

Upon closing, the transaction is expected to be immediately accretive across all reserve and resource categories, and includes:

- **An additional 25% interest in the previously drilled State 16-2 well which has NPV-10 of US\$3.1m;**
- **An additional 25% interest in the State 36-2 well currently being drilled;**
- **An additional 25% interest in all remaining reserves & resources across the WSU (c.25,000 acres);**
- **The transaction also ensures Zephyr will own 100% of the pipeline and processing infrastructure across the WSU.**

Paradox Basin – Post-Acquisition Reserves and Resources Net Attributable to Zephyr

Immediately Accretive to Reserve & Resource Estimates

PARADOX BASIN: DEVELOPED DEVELOPED & UNDEVELOPED RESERVES (MMBOE)	NET ATTRIBUTABLE TO ZEPHYR		
	1P	2P	3P
2018 CPR	-	-	-
2022 CPR	0.54	2.12	6.81
2022 – POST ACQUISITION	0.59	2.57	8.33

PARADOX BASIN: CONTINGENT RESOURCES (MMBOE)	NET ATTRIBUTABLE TO ZEPHYR		
	1C	2C	3C
2018 CPR	0.36	12.33	29.54
2022 CPR	-	26.87	81.13
2022 – POST ACQUISITION	-	34.03	102.92

PARADOX BASIN: UNRISKED PROSPECTIVE RESOURCES (MMBOE)	NET ATTRIBUTABLE TO ZEPHYR		
	1U	2U	3U
2018 CPR	-	-	-
2022 CPR	57.5	203.0	419.0
2022 – POST ACQUISITION	76.7	270.4	558.7


 WSU +
Cane Creek
Lease holding

WSU only

Source: Zephyr, Investor Presentation December 2022, TPI

Paradox drilling campaign underway

Drilling is currently underway on the State 36-2 LNW-CC well in order to further delineate the Paradox Project in its pursuit of unlocking its significant potential upside value. The Cane Creek reservoir (beyond the productive State 16-2 LN-CC well and nearby Federal 28-11 well) is being targeted. Drilling is planned to a total depth ('TD') at 20,456 feet measured depth (9,598 feet true vertical depth) incorporating a 10,346 feet horizontal reservoir section.

The well was spudded on 21 November 2022, following which drilling was initially estimated to take 30 days. Operations have been slightly slower than forecasted, however, due to rig commissioning and mechanical issues. Furthermore, as announced on 9 December 2022, the Group was awarded an additional US\$1 million in grant funding from the US Department of Energy to gather detailed reservoir data from the Cane Creek and overlying reservoirs during ongoing drilling of the well.

Despite the operational delays and the extra time allotted to gather the grant-related reservoir data, it is still Zephyr's expectation to deliver the well within budgeted AFE limits albeit on a slightly longer timeframe than originally forecasted. Zephyr now expects the drilling operation to conclude in January 2023. After reaching TD and dependent on schedule and availability, a completion crew will hydraulically stimulate the horizontal portion of the well, immediately after which production testing commences (expected in late Q1 2023).

16-2 Production test also ongoing

State 16-2 LN-CC was Zephyr's first test of a horizontal well with a modern hydraulically stimulated well in the Paradox Project. The well was initially tested for 23 days in late 2021, with a 4,000-foot lateral successfully stimulated under which favourable rock mechanics were demonstrated. Importantly, only minor pressure drop was witnessed on test, which is consistent with high Permeability along with encouraging signs of a larger connected volume. High production rates were achieved under the initial (rate restricted) test.

The newly commenced test is designed to assess augmented surface facilities and plans for improved flow assurance. Preparation for eventual gas export and continual production operations is also ongoing, while obtaining further production data for overall well and field management (expected in early January 2023).

Package of infrastructure assets located in the Paradox Project

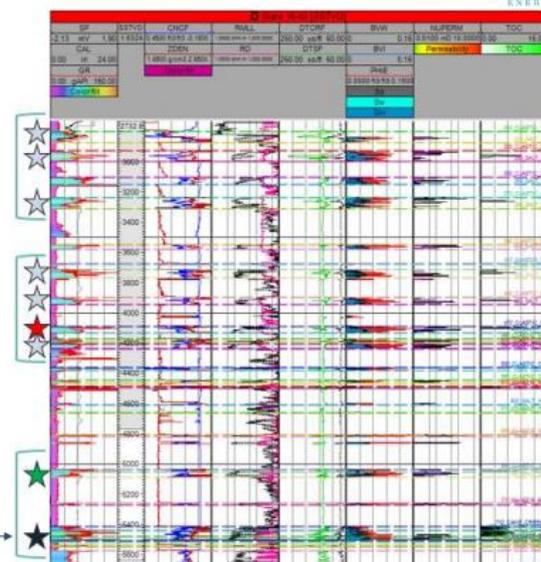
On 14 September 2022, Zephyr announced an acquisition that comprised of 21 miles of natural gas gathering lines, the Powerline Road gas processing plant, rights of way for additional gathering lines, active permits, five existing wellbores and additional acreage which is partly contiguous to the Group's operated WSU. The acquisition is expected to permit Zephyr to substantially reduce the capital required to build the necessary gas export infrastructure for its forecast gas production from the Paradox project. The estimated replacement cost value of the acquired pipelines and plant is over US\$10.6 million (compared with the US\$0.75m consideration that was satisfied using the Group's existing cash resources). As well as allowing Zephyr to significantly reduce the capital required to build out the gas infrastructure to sell its produced gas volumes into the market, it also completed the acquisition of all key acreage covered by the WSU 3D while providing an additional well pad already tied to the pipeline. In combination with the recently acquired acreage this will simplify future development drilling. Similarly, the gas plant, while currently not in use, has excellent potential for reintroduction to service and can potentially act as a WSU supply base.

Exploration Potential beyond the Cane Creek

Exploration Potential beyond the Cane Creek



- Paradox Formation > 3000'
 - Layered evaporite
- Over 21 clastic intervals (muddy fine ssts, organic rich shales and anhydrites) interbedded with salt
- Two proven productive zones
 - Cane Creek (primary)
 - C18/19 in the Cane Creek Field
- Further 8 exploration zones
 - C1, C2, C4
 - C6, C8, C9 & C10/11
 - C18/19 – similar structural style as the Cane Creek reservoir
- Offset exploration zones show
 - Very similar petrophysics as the Cane Creek reservoir, if not better
 - Positive evidence for moveable HC's
 - Lack of prolonged production
 - To be further tested during the ongoing 36-2 drilling, with potential to drill C-9 well later in 2023.



Source: Zephyr, Investor Presentation December 2022

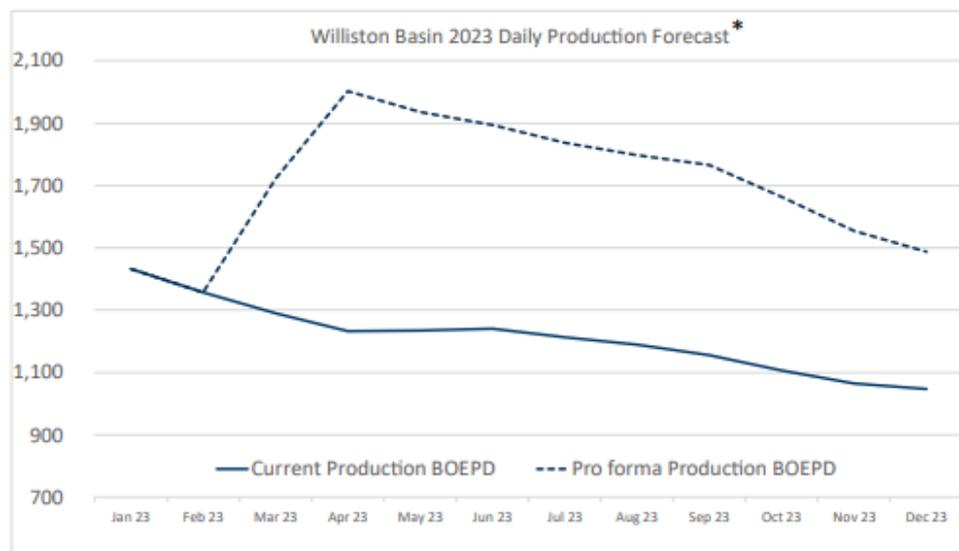
Opportunistic bolt-on acquisition to expand Zephyr's non-operated Williston portfolio

Targeting the same performance criteria as the Group's previous 12 non-operated investments– which includes capital payback in under two years along with a minimum ROIC of 200% - this latest proposed addition ("the Williston Acquisition") to Williston portfolio comprises 6 gross (1.2 net) wells. Operated by Slawson Exploration Inc. ("Slawson"), a top-tier sector player with a long history in the region and access to OFS ("Oilfield Solutions") companies, this latest acquisition provides Zephyr with high quality diversification for total consideration of US\$2.9 million while also assuming responsibility for the US\$8.9m CAPEX associated with the WIs, whose holdings range from 11 to 32%.

Expected to provide a near-term production boost, having been spud in November 2022 and with first sales volumes expected in the first quarter of 2023, management currently estimates that the 2P Reserves being acquired are c.550,000 boe net to Zephyr. On a pro forma basis inclusive of the Williston Acquisition working-interests, the Group is issuing a 2023 net full-year production forecast of 1,550 to 1,750 boepd (up from an estimated 1,210 boepd from its existing portfolio, an increase of 28% to 45%) for its aggregate Williston Basin interests.

This accretive acquisition is seen providing the Group with further low-risk oil production while generating the incremental future CAPEX required as a result of the Paradox Acquisition. It is expected to replace Williston Basin PDP ('Proved Developed Producing') decline forecasts, extending it with meaningful near-term cash flow and production growth.

Zephyr's 2023 Non-Operated Post-Acquisition Daily Production Forecast



**Internal management estimates, not independently verified*

Source: Zephyr, Investor Presentation December 2022

In order to fund the Williston Acquisition and ensure that the Group generates additional cashflow, Zephyr has secured an US\$8 million asset-backed bridge loan facility ('the Loan') on attractive commercial terms from a US based family office, which has co-invested with Zephyr's management team on other projects on multiple occasions. There is no equity component attached to the Loan, the key terms of which are as follows:

- Loan secured by the New Williston Wells;
- A 1% royalty interest in the New Williston Wells;
- Twelve-month term;
- 1% origination fee;
- Twelve-month term; and
- 12% per annum interest rate.

It is expected that the Loan will be repaid through cash flows generated from the new Williston Wells or via proceeds from the Group's existing reserve backed loan facility after its next redetermination scheduled for Q2 2023

Williston Basin is one of the most active & prolific basins in the US

Zephyr's pre-acquisition non-operated interests comprised 199 gross (15 net) wells available for production from the Middle BrakkenBakken and Upper Three Forks primary reservoir targets. They brought a large PDP component that is presently enjoying strong cash flows through principal operators, Chord Energy (formerly Whiting and Oasis) and Continental Resources, through which the Group has leveraged the operational and technical expertise of these much larger players while maintaining low overheads. Covering c.2,000 net acres, total Q1 to Q3 sales volumes were c.1.6m boepd. Having demonstrated growth potential through acquisition and drilling, prior to today's transaction, Zephyr was already anticipating upside potential through 26 additional wells over the coming six months.

Zephyr's non-operating strategy has to date generated a stable foundation of cash flows to be directed to the development of the Paradox project while providing strong returns from low risk proved reserves. They have enabled participation during a favourable stage of the commodity cycle, while taking advantage of market inefficiencies and providing portfolio diversification/balance to exploration upside. To date, each equity dollar

invested has generated multiple dollars for future reinvestment. Having produced Q1-Q3 2022 revenues of US\$35.5m and operating cash flow of US\$29.8m, full year average production of 500,000 boe to 550,000 boe is expected to produce revenues in the range US\$40m to US\$45m. Importantly, Zephyr is already carbon net zero through an offsetting programme using Verified Emissions Reduction credits. The business model and its expected returns have been illustrated below:

Williston Strategy: Performance



Notes: Figures are aggregated from January 2021 through June 2022. Equity is calculated as total equity raised less Paradox capital expenditures. Williston Proved Reserves at PV-10 per management estimates and 11/2/22 NYMEX strip pricing. Cash and debt balances at 6/30/22.

Source: Zephyr, Investor Presentation December 2022

The Group has 150,000 barrels of oil in 2023 hedged at US\$90.56/bo with BP Energy Company, with remaining oil volumes presently unhedged/gas 100% unhedged. The value in such strategy has been highlighted by recent market weakness, with WTI crude futures recently bottoming below US\$71/bo as traders balanced China's (the world's largest importer) loosening of COVID restrictions with President Putin's threats to cut production in retaliation to the imposition of the Western price cap.

2023 Capital Expenditure Forecasts

Drilling operations commenced on the State 36-2 LNW-CC well at the Group's flagship project in late November 2022. Seen completing in January 2023, the well is then expected to be fracked and then production tested for a further month or so, with results likely to be published in Q1/early Q2 2023. Designed to further delineate Zephyr's acreage position, the primary objective is to target production from the Cane Creek reservoir, although management also plan to use the drilling operation to acquire important additional data from overlying reservoir targets.

A successful well test would provide significant reassurance regarding the commercial potential of up to 32 mmboe net contingent resources, while the second fully-funded State 36-3 LN-C9 designed to test overlying Clastic 9 reservoir could potentially allow conversion of a further c.25 mmboe from prospective into contingent resources. The extended production test of the State 16-2 LN-CC well that was drilled back in 2021 also commenced earlier this month and expected to conclude in January 2023.

Pro forma for the two acquisitions, Zephyr's updated 2023 CAPEX and Production outlook for the remainder of 2022 and the whole of 2023, CAPEX could now possibly include:

- **US\$12 million to drill, complete, test, and tie the State 36-2 LNW-CC into infrastructure;**
- **US\$8 million to build gas processing facilities and complete infrastructure improvements so that gas volumes from the State 16-2 LN-CC and State 36-2 LNW-CC can be sold into market as soon as possible, (including US\$500,000 to tie in the 16-2);**
- **US\$6 million to drill and complete a 50/50 well with Kirkwood (in a Drill Spacing Unit ('DSU') near the Cane Creek black oil field);**
- **\$3.6 million for drilling and completing of current Williston non-op inventory;**
- **Paradox production estimated to be online Q4 2023.**

Exercise of Directors' Warrants

In November 2019, Origin Creek Energy LLC ('OCE') (a company in which Colin Harrington, CEO of Zephyr, is a controlling shareholder and in which Rick Grant, Zephyr's Chairman, is a Director) and Chris Eadie, CFO of Zephyr, were issued warrants to subscribe for ordinary shares at 2p each, as part of a placing undertaken at that time. OCE and Chris Eadie have indicated their intention to serve notice to exercise their warrants over 21,818,182 new ordinary shares and 454,545 new ordinary shares respectively, for a total consideration of £445,454.

Due to the AIM rules and given the rapid development and multiple operational milestones and acquisitions completed by the Group, OCE and Mr Eadie have been unable to exercise these warrants until now. Funds received by Zephyr will be put towards general working capital and CAPEX requirements. It is expected that the shares corresponding to the warrants will be issued in the coming days. A further announcement will be made as and when appropriate.

Zephyr's asset base balances portfolio diversification and asymmetrical growth potential

Balanced Portfolio

Zephyr's balanced asset base provides portfolio diversification and an asymmetrical growth potential



Source: Zephyr, Investor Presentation December 2022

Zephyr presents an increasing compelling value proposition

Compelling Value Proposition

Supported by an experienced team



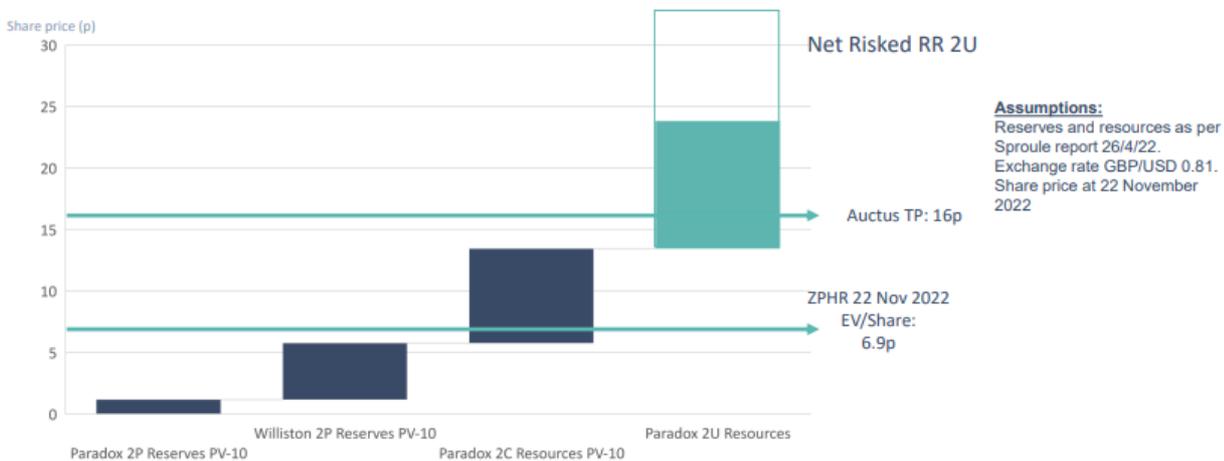
*Based on best initial 16-2 production test results

Source: Zephyr, Investor Presentation December 2022

Zephyr’s base case asset valuation compared with enterprise value*

The chart below details Zephyr’s opportunity for significant value creation through additional Paradox development, that has been substantially enhanced through today’s transaction. Taking the Reserves and Resources detailed in a competent person’s report (‘CPR’) prepared by Sproule International Limited and released on 26 April 2022, net present value economics at a discount rate of 10% (‘NPV-10’) were assessed for Paradox 2P Reserves, Williston 2P Reserves and Paradox 2C Resources, as shown below. The final column represents best estimate qualifying as Prospective Resources, 2U (Net Risked Prospective Resources based on 33% average chance of success) attributable to Zephyr (pre-acquisition) from Overlying Reservoirs. Altogether, this suggested *pre-acquisition* share price upside to beyond 30p/share, which is now expected to be enhanced quite significantly further.

Base Case Asset Valuation versus Current Enterprise Value



*Correct as of 22 November 2022

Source: Zephyr, Investor Presentation December 2022

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

Zephyr’s Upcoming Catalysts

Upcoming Catalysts



*Based on best initial 16-2 production test results

Source: Zephyr, Investor Presentation December 2022

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

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, while 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. The Board now aims to build on its current knowledge and track record in order to further accelerate the value growth from its enlarged portfolio. The drilling programme of three fully-funded Cane Creek wells now underway will enable further delineation and increase overall understanding of the Paradox asset base. Management will have assessed potential upside and determined the first of a series of follow-on steps before the year end, followed by increases in all reserve and resource classes during 2023.

Significantly in this respect, funding for the next major 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 about one-third 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. In November 2022, management also upgraded its previously released 2022 production and revenue guidance from an expected US\$35-40 million to an expected \$40-\$45 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. 2023 production and revenues are expected to be enhanced by the start-up of the Slawson wells in March 2023.

Paradox findings to date have demonstrate a continuous resource play. It comes with tight oil & gas, repeatable petrophysics across a large area, production from off and on structure locations, with consistent thickness, high reservoir pressures and stacked potential. Based on Sproule's price deck (1 January 2022), the Basin's post-acquisition 3C Contingent Resources of 102.92 mmboe (up from 81.13 mmboe) would evidently now provide a PV-10 in excess of US\$1bn.

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