Zephyr Energy plc

Zephyr passed a watershed moment on [5 October 2020] when it entered into a definitive binding agreement (the 'Agreement') with the [University of Utah's Energy & Geoscience Institute] ('EGI') to sanction and substantially fund its planned [Paradox Basin] stratigraphic dual-use vertical research well (the 'Paradox Project', 'State 16-2'). Further to this, the Group has today announced its completion of a conditional equity placing ('the Placing') to raise £2.25m (gross) at 0.55p/share, leaving it well funded with respect to pursuing both its Paradox Project obligations and other strategic ventures. In addition to the estimated maximum US$1m incremental drilling costs that are expected to result in spudding before the end of 2020, part of the net Placing proceeds may also be used for future lateral drilling on the Paradox Project and/or the funding of potential acquisitions which meet the Board's strict investment criteria at a time when there are significant US upstream oil and gas market opportunities arising in the Rocky Mountain region. Significantly, Origin Creek Energy, an investment vehicle controlled by Zephyr's CEO, Colin Harrington, also participated with £0.36m in this round (taking its total investment in the Group to date to £1.14m, being represented by 143.6m shares or 19.34% of the enlarged equity) which, along with further subscriptions from two other Directors, ensures management interests remain aligned with those of the wider Group shareholder.

Placing Details

A total of 409,090,909 new shares have been conditionally placed with certain existing shareholders, new institutional and other investors by Turner Pope Investments. Given Zephyr's currently limited authority to issue new equity on a non-pre-emptive basis, the Placing will be completed in two stages. A total of £1.1 million, representing the issue of 200,000,000 Placing Shares at the Placing Price, has been raised within its existing share allotment authorities (the 'First Placing'), with Admission expected to take place on or around 20 October 2020. The balance of £1.15m (the 'Second Placing') remains subject to authority being secured from shareholders at a general meeting to be held on 2 November 2020, subject to which their Admission will take place on or around 3 November 2020. The Placing as a whole would then represent c.59% of the Group's enlarged share capital. Zephyr's Board is also proposing to issue TPI with 70,249,091 warrants to subscribe for 70,249,091 new ordinary shares as part of its fees for undertaking the Placing. The Placing's successful completion eliminates the need for Zephyr to enter the previously outlined US$1m Booner Capital LLC ('Booner') debt facility.

Significant upside potential beyond Cane Creek

Zephyr's current Paradox acreage of c.25,353 acres is held through multiple leases with variable expiry dates. These are estimated to hold an approximate Net 2C contingent recoverable resources of 9.9 million barrels of oil equivalent ('mmboe') in the Cane Creek reservoir alone, for which a Competent Persons Report ('CPR') prepared by Gaffney Cline & Associates in June 2018 estimated a net present value of approximately US$50 million, using a flat oil price of US$45 per barrel having applied a ten percent discount rate ('NPV$_{10\%}$'). Beyond this, however, its Board considers further substantial upside potential exists from five additional zones thought to be productive and that data secured from the State 16-2 well will help to further define this. Together with geological analysis obtained from the initial drilling and reduced costs for a prospective horizontal appraisal well, this should be highly beneficial to the ongoing funding/farm-in discussions of the Paradox Project. Considering the discounted valuation implied through the CPR, Zephyr shares could offer substantial upside to the £3.83m post-money market capitalisation.

Stock Data

Share Price:	0.65p
Market Cap.:	£4.53m*
Shares in issue:	696.2m*

**Post First and Second Placing Admissions*

Company Profile

Sector:	Oil & Gas
Ticker:	ZPHR
Exchange:	AIM

Activities

Zephyr Energy plc ('Zephyr', 'ZPHR', 'the Group'), formerly Rose Petroleum plc, is a junior oil and gas E&P company with a core focus on oil and gas interests in the Rocky Mountain region of the US. Its current strategy includes responsible resource development growth via the acquisition of near-term development and production opportunities located in prolific basins of the western region.

Website: https://www.zephyrplc.com/

1-Year Share Price Performance

Source: LSE

Note: Past performance is not an indication of future performance.

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Fast-tracking the Paradox Project

The EGI's primary objective is to acquire a comprehensive data set across both the Cane Creek reservoir and the five additional prospective zones. Importantly, however, the State 16-2 well has also been designed to facilitate re-use, which allows for future drilling of a horizontal appraisal lateral from the wellbore after the initial data acquired has been processed and evaluated. The spudding of this proposed 'dual use' well is now only conditional on customary permitting, with detailed design work already underway and drilling due to commence before the end of this year.

In securing such non-dilutive grant funding and delivering such a near-term commitment, Zephyr management appears to have found a creative and shareholder-friendly path to de-risk and fast-track a future Paradox Project development programme.

Key terms of the EGI Agreement

Zephyr will be the Operator of the State 16-2 and is responsible for all planning and drilling activity. Zephyr and the Rockies Standard Oil Corporation ('RSOC'), its 25% joint-venture partner, will continue to be the sole working interest owners in the leasehold and of the vertical well. The primary well objectives are to drill vertically to the Cane Creek reservoir at an approximate True Vertical Depth ('TVD') of 9,850 feet, and to acquire up to 90 feet of continuous core along with a comprehensive electronic log suite.

The total cost of the vertical well activity is forecast to be between US$2.5 million to US$3 million, of which the first US$2million will be funded via a US Department of Energy ("DOE") grant through the EGI. The balance of up to US$1 million will be sourced from the new funds raised today after the DOE grant funds have been expended. It is anticipated that the data acquired will be processed and analysed within three months of acquisition. Zephyr believes that this analysis, when combined with the Group's pre-existing 3D seismic data, will enable and optimise future drilling and responsible development of its acreage. Once the vertical well is drilled and temporarily plugged back to approximately 6,500 feet TVD, Zephyr (or a future farm-in partner) will have the option to re-utilise the vertical wellbore as a sidetrack host, from which a horizontal lateral can be drilled to fully test the play.

Reduced future horizontal well drilling costs

Zephyr's Board considers that the test well's core data and well logs, when used in combination with its pre-existing high-quality 3D seismic, will significantly de-risk the development of the Paradox Project in the absence of dilution at the asset-level for the Group and relatively modestly at the equity-level for shareholders. By re-utilising the vertical portion of the stratigraphic well, Zephyr's Board estimates the total costs of drilling a future horizontal appraisal well will be reduced from c.US$6.0m to c.US$3.0m, as well as minimising the overall environmental impact of future horizontal development.

Horizontal drilling potential of the Cane Creek Reservoir Zone

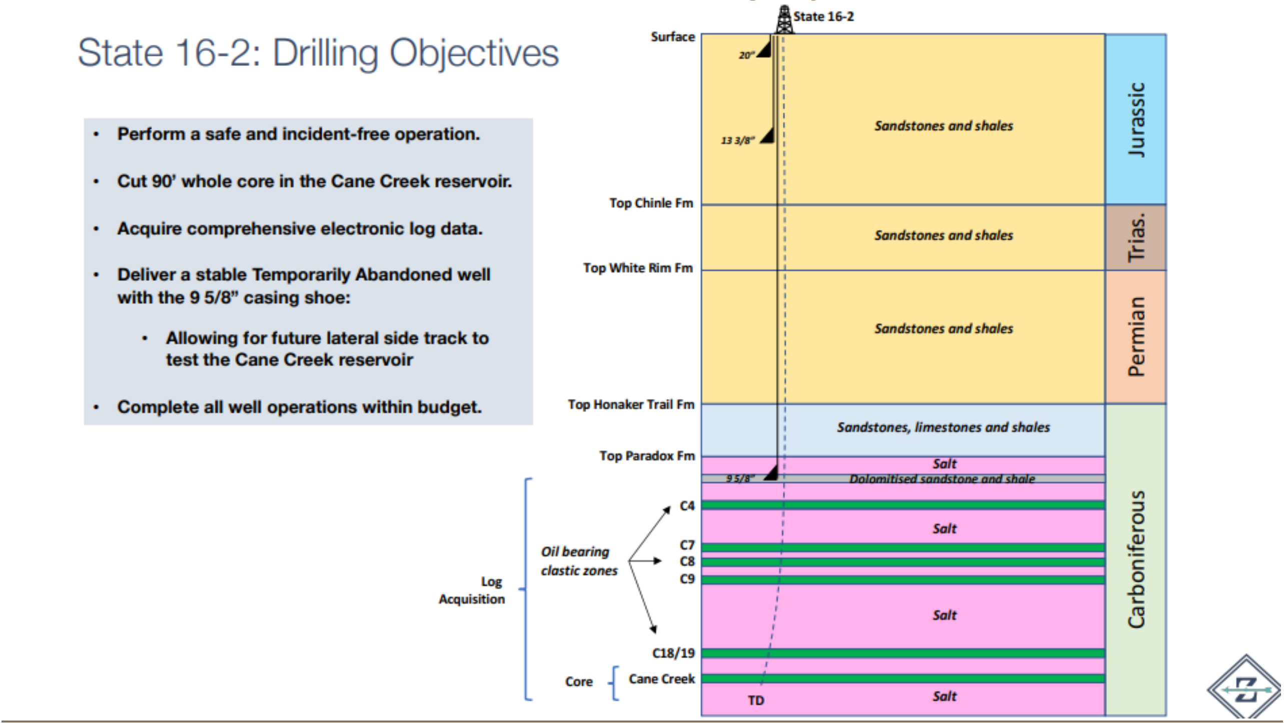
Recently, the United States Geological Survey('USGS') assessed the undiscovered oil resource in the Cane Creek reservoir of the Paradox Basin at 103 million barrels at a 95% confidence level and 198 million barrels at a 50% confidence level. Nonetheless, relatively limited research has historically been conducted or published to further define the play and the reservoir characteristics, hence the EGI's Agreement with Zephyr for a stratigraphic research well.

The Cane Creek zone of the Pennsylvanian Paradox Formation is a well-defined target for horizontal drilling. Having been drilled since 1962 and with extensive existing infrastructure in place across the region, it consists of naturally fractured, organic-rich marine shale with interbedded dolomitic siltstone, sandstones and anhydrite.

The regional structural trend is north-northwest with productive fractures occurring along the crest and flanks of both the larger and more subtle smaller anticlines. Cane Creek, along with the Long Canyon, Bartlett Flat, and Shafer Canyon fields are located on large anticlines, while Lion Mesa and Wilson Canyon fields produce from subtle structural noses.

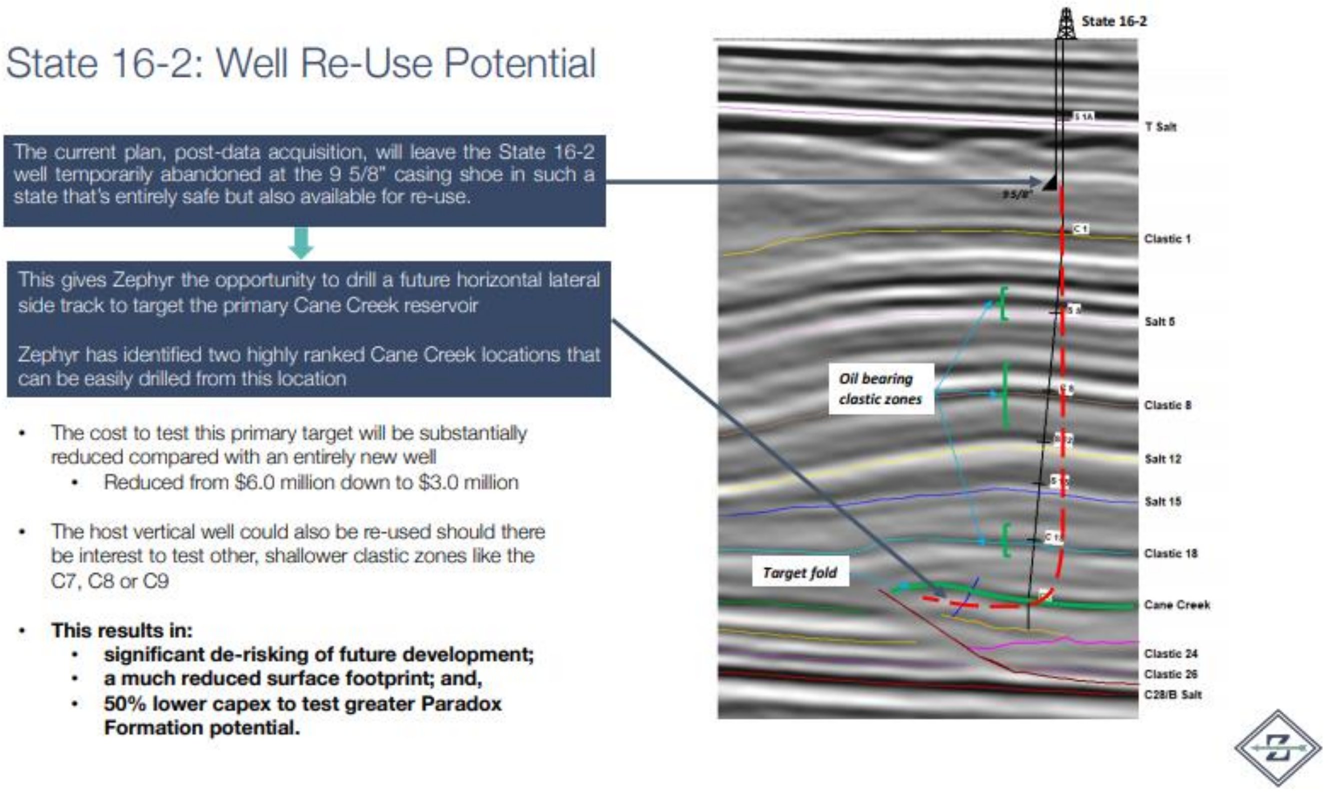
The Cane Creek zone might possibly be considered similar to the highly productive Bakken Shale in the Williston basin, both being proven historic producers of high-gravity oil. Its more recent unconventional successes include the Fidelity Exploration & Production Company (now Kirkwood Oil & Gas LLC) which took ownership of the Cane Creek's Bartlett Flat field in 2007 and began drilling additional wells, comprising 17 horizontal wells in the unit, many of which had legs exceeding 5000 feet in length. By September 2014, total production for this unit had exceeded 2.9 mmbo.

State 16-2 Dual-Use Well – Drilling Objectives



Source: Zephyr, [Investor Presentation October 2020]

Crane Creek Reservoir – Opportunity for Future Horizontal Drilling



Source: Zephyr, [Investor Presentation October 2020]

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