Zephyr Energy plc

Zephyr has announced the signing of a non-binding Letter of Intent (the 'LOI') with Atlas Oil Company ('Atlas'). Subject to definitive terms, the LOI provides for up to US$15m in non-dilutive pre-production financing based on a proposed Prepaid Commodity Purchase Agreement (the 'CPA') and the sale of hydrocarbon marketing rights for a specified term at Zephyr's project in the Paradox Basin, Utah (the 'Paradox project'). Securing such financing prior to achieving steady gas production clearly reduces project execution risk, on the basis of Atlas being compensated and repaid only from production sales proceeds. Coming with zero equity dilution and no asset-level working interest loss, we believe such a trade-off of future cashflow for midstream capex should be considered a particularly shareholder-positive means by which to accelerate Zephyr's passage toward commercial production and cash generation. It is also worth noting that while continuing its farm-out process with different interested parties, should bids be considered unsatisfactory to the Board, Zephyr retains a viable means by which to independently undertake initial Paradox infrastructure development. This, of course, strengthens its negotiating position and provides options to ensure the most value-accretive outcome. Assuming the final terms (including interest rate equivalents, marketing fee percentages, tranche conditions, etc.) are commercial and reasonable, execution of the CPA (expected late-Q3 or early Q4 2026) should represent a further important step toward unlocking the economic value of the Group's flagship asset.

Atlas has a worked closely with Zephyr for a number of years

Atlas is a major American fuel supply, trading, and logistics business established in 1985. Headquartered in Taylor, Michigan, with primary operational hubs in Houston, Texas, the company supplies diesel, gasoline, alternative gas solutions, and oilfield services across North America. Zephyr has maintained a close working relationship with Atlas and its team for several years, relying on their expertise for the testing, marketing, transport and sale of all historical oil volumes from the Paradox project, including all production from the State 16-2 well since 2021. The fact that the proposed funding is not contingent on the timing of first gas production, underscores Atlas's deep familiarization with, and confidence in, the Paradox asset. Timeline for first gas remains contingent upon regulatory approvals, but it's noted that the Enbridge team was on site this week commencing the dig for 4 short visual inspections (results of which will be utilised in the application for approvals).

Funds will be used complete Paradox's infrastructure build-out

Under the terms of the CPA, the proposed funding will deliver payment to Zephyr of up to US$15m in tranches, in exchange for Atlas holding the exclusive right to market, purchase and sell all hydrocarbons produced from an agreed asset area during a specified term. The funds will be used to complete the initial Paradox project infrastructure build-out (ranging from compression for pipeline pressure uprating to potential upsizing of gas processing facilities, well tie-ins, etc.), as well as completing workovers on the State 36-2R well and other existing wells. It should also permit the Group

Stock Data

Share Price:	3.90p
Market Cap.:	£81.93m
Shares in issue:	2,100.72m
52 week high/low:	4.34p/2.20p

Company Profile

Sector:	Oil & Gas
Ticker:	ZPHR, ZOHRF
Exchange:	AIM, OTCQB

Activities

Zephyr Energy plc ('Zephyr', 'the Group') is an independent oil and gas E&P Group with a strategic focus on carbon-neutral hydrocarbon development projects in the Rocky Mountain region of the US.

https://www.zephyrplc.com/

1-year share price performance

5-year share price performance

Source: LSE

Past performance is not an indication of future performance.

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to reallocate funding to advance planning, potentially including drilling of additional Paradox project wells. We also believe Atlas and Zephyr will consider further Atlas investment in Paradox project drilling opportunities, subject to mutual agreement on terms by both parties.

Zephyr's Board considers the proposed funding would be highly advantageous to Zephyr's existing shareholders, summarising the following highlights:

- Up to US$15 million of non-dilutive pre-production financing for the Paradox project;
  -No issue of new Zephyr equity and no sale of asset-level working interests.
- Provides funding to support Paradox project infrastructure build-out, well workovers potentially upsized gas processing facilities.
- Proposed funding not contingent on the timing of first gas production.
- Atlas and its team have detailed knowledge of the Paradox project, having supported prior oil marketing and logistics activities on site since 2021.
- The proposed funding provides benefits and flexibility to the ongoing farm-out process, while also allowing for a standalone development operated by Zephyr. The proposed funding would allow Zephyr to get to first commercial production at a larger scale, while existing Zephyr resources can be reallocated for future well planning and drilling.
- Repayment of the proposed funding would come from future production sales proceeds, aligning funding with future Paradox project cash generation.

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