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Zephyr Energy PLC
22 November 2021

Prior to publication, the information contained within this announcement was deemed by the Company to constitute inside information as stipulated under the UK Market Abuse Regulation. With the publication of this announcement, this information is now considered to be in the public domain.

22 November 2021

Zephyr Energy plc

("Zephyr" or the "Company")

Transformational US$36 million acquisition of non-operated production assets in the Williston Basin

Zephyr Energy plc (AIM: ZPHR) (OTCQB: ZPHRF), the Rocky Mountain oil and gas company focused on responsible resource development from carbon-neutral operations, is pleased to announce that it has entered into a binding agreement (the "Agreement") to acquire further non-operated working interests in currently producing and near-term production wells in the Williston Basin, North Dakota, USA (the "Assets") (the "Acquisition").

The Directors of Zephyr (the "Directors" or "Board") believe that the Assets will be an ideal addition to Zephyr's existing asset portfolio and that the cashflows generated from the Acquisition will enable the Company to proceed with, amongst other things, the fast-track development of its flagship Paradox project.

Summary

Zephyr has entered into a binding agreement with Kaiser Acquisition and Development - Sanish Non-op, LLC, a privately owned exploration and production company based in the USA (the "Seller") to acquire a portfolio of non-operated working-interests in wells located in the same Williston Basin field as a number of Zephyr's existing non-operated assets. The assets being acquired are operated by Whiting Petroleum Corporation ("Whiting"), one of the largest and most experienced operators in the Williston Basin and which already serves as the operator of a number of Zephyr's existing non-operated wells. The Acquisition has an effective date of 1 October 2021 (the "Effective Date").

- Under the terms of the Acquisition, which is expected to close by 22 December 2021, Zephyr will acquire working interests in 163 currently producing wells (the "PDP wells") with approximately 871 barrels of oil equivalent per day ("boepd") net to the Assets being produced in September 2021.

- In addition to the PDP wells, the Acquisition includes:
    - o 18 proved not producing ("PNP") and drilled but uncompleted ("DUC") wells, all of which have been drilled and are expected to come online in the coming months. When online, which is expected to be in 2022, the PNP and DUC wells are expected to increase net production of the Assets above 1,100 boepd; and
    - o 47 proved but undeveloped ("PUD") locations for future drilling demonstrating the long-term potential of the Assets.

- The Assets are spread across 22 separate drilling pads in Mountrail County, North Dakota and are estimated, by the independent reserve consulting firm Sproule Incorporated ("Sproule"), to hold a net 2.764 million barrels of oil equivalent ("mmboe") of Proven Reserves.

- Consideration for the Acquisition, which is subject to various customary closing adjustments, is US$36 million, of which US$3 million will be paid immediately as a non-refundable deposit. Zephyr is currently evaluating a range of financing alternatives to fund the remainder of the consideration via structured debt, including alternatives which would be non-dilutive to equity holders. In the event the Acquisition is completely funded by debt, pro forma net debt as a multiple of 2022 forecast adjusted earnings before interest, tax, depreciation and amortisation ("EBITDA") for the Company post acquisition is expected to be approximately 1.6x, a level which the Board deems to be suitably conservative.

- The Acquisition has robust economics which, along with Zephyr's existing Williston Basin production assets, is expected to generate substantial low risk cashflow which can be redeployed into the Company's growing Paradox Basin development. The Company estimates:
    - The Acquisition cost equates to 2.1x the Assets' 2022 forecasted EBITDA
    - Low operating expense of approximately US$13.91 per barrel of oil equivalent ("boe") which provides high cash margins of over 75%, as forecasted over the next three years
    - When combined with Zephyr's current Williston Basin assets, the Company's pro forma non-operated portfolio is expected to generate approximately US$22.9 million of EBITDA in 2022 and US$19.3 million of free cash flow after expected capital expenditure ("CAPEX"), as forecast by the Board
    - The Board estimates the post-tax net present value of the Acquisition is US$46.3 million, using Sproule's pricing (outlined in Appendix A) at a ten per cent discount rate ("NPV-10")
    - Cashflows generated by the PDP wells acquired are expected to utilise the Company's historical tax losses of more than US$16 million

    Note: Estimates using Sproule pricing as shown in Appendix A

- Zephyr has completed its financial, technical and commercial due diligence on the Assets, a process undertaken over the past six months. As part of its due diligence process, the Company commissioned Sproule to produce a Competent Persons Report ("CPR") on the assets being acquired. This CPR is now available for inspection on the Company's website www.zephyrplc.com or can be accessed by clicking on the following link: https://www.zephyrplc.com/investors/reports-presentations/

- The Company has drawn down on a short-term bridge loan facility of £3.0m (the "Loan") to fund the deposit to secure the Acquisition. The Loan, which has favourable commercial terms and no dilutive equity component to Zephyr, has been provided by a group including existing Shareholders and members of the Board.

Colin Harrington, Chief Executive of Zephyr, said: "The Acquisition announced today is another landmark deal for Zephyr and will further transform the Company by adding a significant, low-decline, low-risk, high margin production base - with both near and long-term upside exposure into a further 65 wells, thirteen of which have already been drilled and are expected to be online soon.

"The Assets are located in the same core Williston Basin field as many of our existing non-operated wells and will be a significant complement to our current non-operated portfolio.

"As we outlined to Shareholders in January 2021, our goal for the year was to establish production and positive cash flow for the Company either through our existing portfolio, via acquisition, or through a combination of both. Assuming we complete the Acquisition by the end of the year, we will end 2021 having outperformed even my most optimistic expectations, having grown a considerable non-operated portfolio during the year and having achieved a huge milestone with first production from our Paradox project, where production testing data from the State 16-2LN-CC well remains highly encouraging.

"Upon closing, the Acquisition is expected to more than double Zephyr's non-operated production levels and related cashflow over the next twelve months. The Acquisition will provide Zephyr with significantly more resources with which to accelerate the development of its Paradox Basin project. This year, cashflows generated by our existing non-operated portfolio have already been utilised on our Paradox project, have enabled us to acquire additional leases, and have allowed us to acquire further non-operated assets with production coming online shortly. We are firm in our intention to continue with this successful strategy as we position the Company for further growth and increased profitability.

"In addition, in line with our previously stated commitment, we intend to ensure that all hydrocarbons produced from the Acquisition, net to Zephyr, will have a "net-zero" operational carbon impact while under our ownership. This will be achieved largely through our programme of purchasing Verified Emission Reduction credits to mitigate all Scope 1 carbon emissions.

"The Acquisition assets are situated in a prime location in the Sanish Field in the Williston Basin and all wells are operated by Whiting, a top basin producer already serving as operator of a number of our existing wells. I look forward to further developing our relationship with Whiting as we grow our asset base in the Williston Basin.

"I would like to extend a sincere thank you to our Shareholders and Board members who participated in the bridge loan funding which enabled us to proceed with the Acquisition. The funding, secured on highly favourable terms, and with no dilutive equity component, demonstrates the faith that these parties have in both the Company and the Acquisition. I am also highly encouraged by our discussions to date with a diverse range of potential lenders in respect of the remainder of our Acquisition funding.

"It's important to note that, to date, Zephyr has delivered multiple acquisitions and significant progress on its Paradox asset without utilising any debt, as the Board did not consider appraisal and development assets to have a suitable risk profile for leveraging at the time. However, the Acquisition assets have a long production history and have reached a lower decline phase. Combined with appropriate hedging and with our success in delivering production from our existing non-operated portfolio, the result means we believe we can now safely utilise conservative levels of leverage.

"In conclusion, I'd like to reiterate that we are operating in particularly exciting and unusual times - times which simultaneously offer strengthening commodity prices as well potential to complete opportunistic acquisitions at highly compelling valuations. Zephyr's Board has unanimously agreed to be aggressive in these times in order to fortify our ability to deliver an accelerated development schedule on our Paradox asset, which in turn is expected to position the Company for significant long-term growth. The value already delivered from this year's progress now means that additional growth has the potential to be delivered with minimal dilution to Shareholders.

"We will be providing regular updates as we progress through this transformational period in both our operated and non-operated portfolio - and in the meantime, we will continue to operate in line with our core values of being responsible stewards of both our investors' capital and of the environment in which we work."

Details of and reasons for the Acquisition

The Acquisition will be transformative for the Company, providing a stable foundation of low-decline production and cash flows from 163 gross producing wells. In addition, 18 PNP and DUC wells are expected to be brought online in the near term and 47 additional gross undeveloped locations are expected to provide meaningful upside for many years to come. The acreage is highly complementary to the Company's existing interests in the Williston Basin.

The key details of the Acquisition are as follows:

- Acquisition of 1,960 net acres of non-operated working interests in Williston Basin
- The working interests across the acreage average approximately 5.9%
- 163 gross producing wells
- 5 gross PNP wells
- 13 gross DUCs expected to be placed on production by 30 June 2022
- 47 gross proved undeveloped wells
- The wells are operated by Whiting, an active and highly experienced operator in the Williston Basin, which currently serves as the operator of a number of Zephyr's existing non-operated wells
- Production from the Assets averaged 871 boepd in September 2021, a 30% increase from the average daily production in August 2021 of 671 boepd
- The Assets delivered 290,730 boe production in the twelve months prior to the Effective Date
- The Assets generated US$12.7 million of revenues in the twelve months prior to the Effective Date
- The Assets generated US$9.0 million of net income in the 12 months prior to the Effective Date
- 2P Reserves being acquired are estimated at 2.764 million boe to Zephyr (Sproule estimate)
- The Acquisition acreage is spread across 22 separate drilling pads, creating production diversification

The key benefits of the Acquisition are as follows:

- A diversified, low-decline production base with established history and stable cash flows
- Near term growth from DUC wells currently being brought online
- Potential to hedge a significant portion of the existing production at attractive prices to lock in returns and provide downside protection
- Excellent complement to (and funding source for) the less mature, higher upside Paradox Basin development

The economics on the Acquisition are extremely attractive. Once the DUC wells are online, the Company estimates that the Acquisition will provide:

- Up to US$13.8 million of undiscounted free cash flow after CAPEX, net to Zephyr, in 2022 to deploy into the Paradox development or into additional projects, and over the life of the project, a total US$73.6 million of undiscounted cash flow (using Sproule price estimates outlined in Appendix A)
- 2P NPV-10: US$46.3 million
- Well-level operating expenses forecast to average approximately US$13.91 per boe produced over the next three years
- Forecast 2022 production: approximately 550 boepd average production anticipated from existing producing wells and an additional 615 boepd from wells in progress
- Acquisition price of 2.1x forecast 2022 EBITDA

Note: Estimates using Sproule pricing as shown in Appendix A

Terms of the Acquisition

Zephyr has entered into the Agreement to acquire a newly formed entity that holds the Assets for a purchase price of US$36 million, subject to various customary closing adjustments.

Zephyr will pay the Seller a non-refundable deposit of US$3 million on or around 22 November 2021, funded by a bridge loan as detailed below.

The targeted closing date for the Acquisition is 22 December 2021, at which time the balance of US$33 million, less customary closing adjustments, will be due. The only outstanding action required for completion is for Zephyr to arrange the necessary funding for the US$33 million purchase consideration. There are no other closing conditions.

Zephyr is currently evaluating a number of structured debt financing alternatives to fund the Acquisition and has already received term sheets which include options for funding the entire remaining balance on a non-dilutive basis. If the Acquisition is completely funded by debt, pro forma net debt / adjusted EBITDA for the Company post Acquisition would be approximately 1.6x, a level which the Board deems to be suitably conservative.

Status of the Acquisition process

- Definitive documents signed 19 November 2021
- Financial, technical and commercial due diligence completed
- Land and lease checks completed
- Financial modelling completed
- Technical evaluation and asset review completed
- Third party CPR completed
- Assignments and closing documentation drafted

As part of its due diligence process the Company commissioned Sproule to produce a CPR on the assets being acquired. This report is now available for inspection on the Company's website www.zephyrplc.com or can be accessed by clicking on the following link: https://www.zephyrplc.com/investors/reports-presentations/

A summary of Sproule's reserve estimates from their CPR are outlined in Appendix A.

Bridge Loan

To fund the Acquisition deposit of US$3 million, the Company has drawn down on a £3.0 million bridge loan provided by a group including existing Shareholders and Board members.

The key terms of the Loan are as follows:

- Loan secured by current assets
- Six-month term
- 2% drawdown fee
- 1% per month interest rate
- 3% early redemption payment

It is proposed that the Loan will be repaid from revenues generated by the Company's non-operated asset portfolio.

There is no dilutive equity component attached to the Loan.

Certain Directors and their related parties have participated in the Loan as follows:

- Rick Grant (Chairman of Zephyr) and spouse - £125,000
- Origin Creek Energy LLC ("OCE") - £75,000
  - The shareholders and directors of OCE are Rick Grant, the Chairman of Zephyr, and Colin Harrington, the CEO of Zephyr. Colin Harrington is indirectly the controlling shareholder of OCE.
- Chris Eadie (Chief Financial Officer of Zephyr) - £30,000

The participation in the Loan by these Directors and their related parties is deemed to be a related party transaction pursuant to rule 13 of the AIM Rules for Companies. Accordingly, the Independent Directors of Zephyr (Gordon Stein and Tom Reynolds) consider, having consulted with the Company's nominated adviser, that the terms of the transaction are fair and reasonable insofar as the Company's Shareholders are concerned.

Extension of warrants

In November 2019, certain Directors were issued with warrants to subscribe for Ordinary Shares in the Company at a price of 2 pence per Ordinary Shares ("Warrants"). These Warrants were issued in connection with the equity placing that was carried out by the Company and announced on 4 November 2019 (the "Placing").

In the Placing, OCE invested £480,000 and was issued with 21,818,182 Warrants. The shareholders and directors of OCE are Rick Grant, the Chairman of Zephyr, and Colin Harrington, the CEO of Zephyr. Colin Harrington is indirectly the controlling shareholder of OCE.

Chris Eadie (Finance Director of Zephyr) invested £10,000, and in accordance with the terms of the Placing, he was issued 454,545 Warrants.

These Warrants were issued to OCE and Chris Eadie with a two year-term which expires on 22 November 2021.

Due to the fact that the Board has not been able to exercise warrants for at least the last four months (due to the Company being in a "closed period" and therefore prohibiting the Directors from dealing in the Company's securities), the Independent Directors (Gordon Stein and Tom Reynolds) have agreed to a limited extension of the exercise period for these Warrants.

The Independent Directors have agreed that the Warrants should be exercised by the other Directors as soon as they reasonably can be and have agreed that if the Warrants are not exercised by 30 June 2022, then they will lapse.

The agreement to extend the exercise date of the Warrants held by OCE and Chris Eadie is a related party transaction pursuant to rule 13 of the AIM Rules for Companies. Accordingly, the Independent Directors of Zephyr (Gordon Stein and Tom Reynolds) consider, having consulted with the Company's nominated adviser, that the terms of the transaction are fair and reasonable insofar as the Company's shareholders are concerned.

Contacts:

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Dr Gregor Maxwell, BSc Hons. Geology and Petroleum Geology, PhD, Technical Adviser to the Board of Zephyr Energy plc, who meets the criteria of a qualified person under the AIM Note for Mining and Oil & Gas Companies - June 2009, has reviewed and approved the technical information contained within this announcement.

Estimates of resources and reserves contained within this announcement have been prepared according to the standards of the Society of Petroleum Engineers. All estimates are internally generated and subject to third party review and verification.

Glossary of Terms

1P: proven reserves (both proved developed reserves + proved undeveloped reserves)

2P: 1P (proven reserves) + probable reserves, hence "proved and probable"

3P: the sum of 2P (proven reserves + probable reserves) + possible reserves, all 3Ps "proven and probable and possible"

bbl: barrels of oil

mbbl: thousand barrels of oil

mmbtu: metric million British thermal unit

mmcf: million cubic feet

NGL: natural gas liquids

Reserves: Reserves are defined as those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward

Appendix A

Sproule Proven Reserves Summary

Reserves Category	Well Count	Net Oil Reserves (Mbbl)	Net Gas Reserves (MMcf)	Net NGL Reserves (Mbbl)	Discounted Cash Flow 10% (M$)
PDP	179[1]	1,097	1,823	281	30,458
PNP	5	48	71	11	1,213
DUC/PUD[1]	13	325	372	57	7,504
PUD	47	415	473	73	7,173

Total	244	1,885	2,739	423	46,349

*Note: Some columns may not add due to rounding

1 . PDP well count includes 163 PDP wells and 16 After Payout (APO) wells. The APO are classified as proved developed producing, but do not convert to a paying interest. Only the abandonment costs have been included for these wells.

2. Drilled Uncompleted (DUC) wells have been classified as proved undeveloped (PUD) and are drilled wells with a range of remaining capital costs required to complete and bring on production. These have all been classified as PUD at the request of the Company, for simplicity

Sproule Price Deck

Year	Oil ($/bbl)	Oil Differential ($/bbl)	Oil Realized ($/bbl)	Gas ($/mmbtu)	NGL ($/bbl)
2021	76.00	-6.50	69.50	5.00	30.40
2022	71.00	-6.50	64.50	4.00	28.40
2023	68.00	-6.50	61.50	3.50	27.20
2024	66.00	-6.50	59.50	3.25	26.40

1. Prices escalated at 2% per year after 2024 until price doubles, then held flat
2. Oil differential is the difference in price between an established benchmark and what is actually received at the lease or field (inclusive of adjustments for quality, energy, content, transportation fees and regional / local differentials)