

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.

10 July 2023

Zephyr Energy plc
("Zephyr" or the "Company")

Paradox project update

Update on State 36-2 well;

First tranche of insurance proceeds received;

Amendment to White Sands Unit acreage approved; and

Assessments underway on previously acquired Greentown wells

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 provide an update on operations at its flagship Paradox Project in the Paradox Basin, Utah, U.S (the "Paradox project").

State 36-2 LNW-CC well update

On 19 January 2023 the Company announced that it had intersected a major, highly-pressured, natural fracture network while drilling the State 36-2 LNW-CC well (the "State 36-2 well"). On 20 March 2023 the Company announced that workover and subsequent production test operations were set to commence.

In early April 2023, a significant well control issue arose in which hydrocarbons flowed from the well in an uncontrolled manner. The incident was the apparent result of multiple equipment failures and in particular the failure of a safety valve. Importantly, there were no injuries during the incident and subsequent well control efforts proved to be successful.

At present, the State 36-2 well remains static and under control, and Zephyr is in the process of pulling the production tubing out of the hole, as some joints were compressed/compromised or stuck due to the high pressures experienced during the well control incident and subsequent well control efforts. To date approximately 7,000 feet of 8,900 feet of tubing has been pulled and inspected with circa 15 per cent of the pulled joints requiring replacement. The Company is moving methodically to remove and inspect the remaining joints while keeping the wellbore static. Once the tubing work is complete, a final cement squeeze will be performed and then the casing will be perforated across the reservoir interval prior to production testing the well.

Current and future operations will continue to be conducted in such a way that well control is maintained and working conditions are safe for our team. Although recent operations have been slower than initially expected, the Company's Board of Directors (the "Board") notes the safe progress to date and fully expects to deliver a production test in the near-term. This methodical and patient approach is necessitated by the expected high pressure and substantial apparent deliverability of the well and reservoir, as witnessed during the earlier phases of the operation.

Well control insurance update

While the State 36-2 well control incident was a powerful illustration of the high pressures and productivity inherent in certain Paradox Basin natural fracture networks, the resulting well work operations have subsequently resulted in a delay to the work programme.

As previously reported, the Company retains comprehensive well control insurance coverage, and the Board ultimately expects to recover the vast majority of costs associated with the well control incident. Under the terms of Zephyr's insurance policy these payment recoveries are made on a reimbursement basis (after approval by the insurer, and after the Company has paid the corresponding contractor invoices).

The Company is pleased to announce the initial invoices submitted to its insurer have now been approved and funds from Zephyr's initial claim, totaling circa US\$800,000, have been received. Additional invoices are being submitted on a regular basis with payments expected within 30 days of receipt by the insurer.

BLM Approval of White Sands Unit Acreage Expansion/Contraction

On 25 August, 2022, the Company announced the acquisition of additional prime Paradox Basin acreage adjacent to its operated White Sands Unit (the "WSU") through the targeted acquisition of 1,920 leased acres deemed by the Company to have immediate development potential. Additional contiguous acreage was acquired as reported on 14 September 2022 (collectively, the "acquired acreage").

The acquired acreage was largely covered by Zephyr's existing 3D seismic, and directly bordered the Zephyr lease on which the State 36-2 is located, and with access to pre-existing surface infrastructure which Zephyr subsequently acquired.

A portion of the acquired acreage was envisioned to be added to the WSU, subject to approval from the U.S. Bureau of Land Management (the "BLM") for which the Company applied in early 2023. Zephyr is pleased to report such approval has now been granted as part of larger Expansion/Contraction amendment of the WSU. As part of the approval, 5,000 high-graded acres with near-term development potential have been added to the WSU, and roughly 5,395 acres deemed by the Company to be less suitable for future development have been relinquished.

These actions are part of the Company's active and ongoing portfolio management of its Paradox Basin position. The Board is pleased with its recent BLM interactions and subsequent approval, which results in an amended federal unit with an upgraded and manageable acreage position - a position increasingly difficult to replicate in today's regulatory and political environment.

Assessment underway on recently acquired Greentown wells

The Company is also pleased to report that it has commenced the assessment on five existing wellbores (located in the WSU) acquired as part of a larger acquisition of infrastructure assets and which was announced on 14 September 2022. Several of the existing wells are former producers of hydrocarbons and were subsequently shut-in due to lack of operating infrastructure. Others were deemed to have potential future use as salt water disposal wells or as producers of salt water brine for potential extraction of lithium resources.

As part of this assessment, Zephyr's operations team recently recommenced production from the Greentown Federal 28-11 well in order to understand the well's potential contribution to overall field production when ongoing field infrastructure work has been completed. Hydrocarbons are currently flowing from the well, with condensate volumes collected for sale and natural gas volumes being flared. Once flow stabilises, the Company will assess its future potential for the short and longer term when gas export is available.

Colin Harrington, Zephyr's Chief Executive Officer, stated:

"Work on the State 36-2 well has progressed safely, and the team continues to push forward while maintaining control of the well and ensuring the safety of those working on it. I would like to once again thank our team on the ground for their ongoing efforts in keeping the well stable and safe."

"I am also pleased to report the receipt of initial proceeds from our well control insurance policy. We appreciate the level of engagement from our insurance partners."

"In relation to the upgraded acreage position in the WSU, we continue to work closely with the BLM and other regulatory authorities to perfect the federal unit by maximising its upside potential and minimising environmental impact in areas not deemed as prospective."

"Finally, I would like to note the work being done on the Paradox project away from the 36-2 well, with recent operations including the restart of the Federal 28-11 well where hydrocarbons are now flowing. While this well will not have the same volumetric potential as the State 16-2 LN-CC well or the State 36-2 well, we do believe it will have positive economic impact once our infrastructure buildout has been completed. Two other existing wells in the Zephyr portfolio have also had notable prior shows of hydrocarbons and offer potential future locations and/or workover opportunities."

"We look forward to updating investors on continued progress in the coming weeks during this pivotal time for the Paradox project."

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Qualified Person

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.

Notes to Editors

Zephyr Energy plc (AIM: ZPHR) (OTCQB: ZPHRF) is a technology-led oil and gas company focused on responsible resource development from carbon-neutral operations in the Rocky Mountain region of the United States. The Company's mission is rooted in two core values: to be responsible stewards of its investors' capital, and to be responsible stewards of the environment in which it works.

Zephyr's flagship asset is an operated 45,000-acre lease holding located in the Paradox Basin, Utah, 25,000 acres of which has been assessed to hold, net to Zephyr, 2P reserves of 2.6 million barrels of oil equivalent ("mmboe"), 2C resources of 34 mmboe and 2U resources 270 mmboe.

In addition to its operated assets, the Company owns working interests in a broad portfolio of non-operated producing wells across the Williston Basin in North Dakota and Montana.

The Williston portfolio currently consists of working-interests in over 220 modern horizontal wells. Cash flow from the Williston production will be used to fund the planned Paradox Basin development. In addition, the Board will consider further opportunistic value-accretive acquisitions.

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