



Zephyr Energy plc

Annual Report and Financial Statements
For the year ended 31 December

2022



Company No 04573663

We are a technology-led producing oil and gas company focused on responsible resource development from carbon-neutral operations. We have a balanced portfolio of both operated and non-operated assets, located in two established oil-producing basins in the Rocky Mountain region of the U.S.

Our vision is to open up the next prolific onshore U.S. oil and gas play.

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Strategic Report

Business highlights

FY 2022 REVENUES

US\$41.1 million
FY 2021 US\$6 million

2P RESERVES
PARADOX

2.57 mmboe

FY 2022 NON-OP
PRODUCTION

1,410 boepd
FY 2021 263 boepd

FY 2022 NET CASH
GENERATED FROM
OPERATIONS

US\$27.2 million
FY 2021 US\$1 million

2C RESOURCES
PARADOX

34 mmboe

PARADOX ACREAGE
AT JUNE 2023

45,000 acres

CASH AND CASH
EQUIVALENTS AT
31 DEC 2022

US\$9 million
FY 2021 US\$1.8 million

2U RESOURCES
PARADOX

270 mmboe

FY 2022 HEALTH AND
SAFETY INCIDENTS

Nil
FY 2021 Nil

Balanced growth & asymmetric upside in the U.S. Oil and Gas sector

At a glance

Creating value through responsible oil and gas development and production

As an oil and gas producer, we recognise we have an important part to play in shaping the future of our industry and a sustainable future.

Our purpose is to drive growth and create long-term value for all stakeholders through responsible oil and gas production.

Central to our purpose are our values

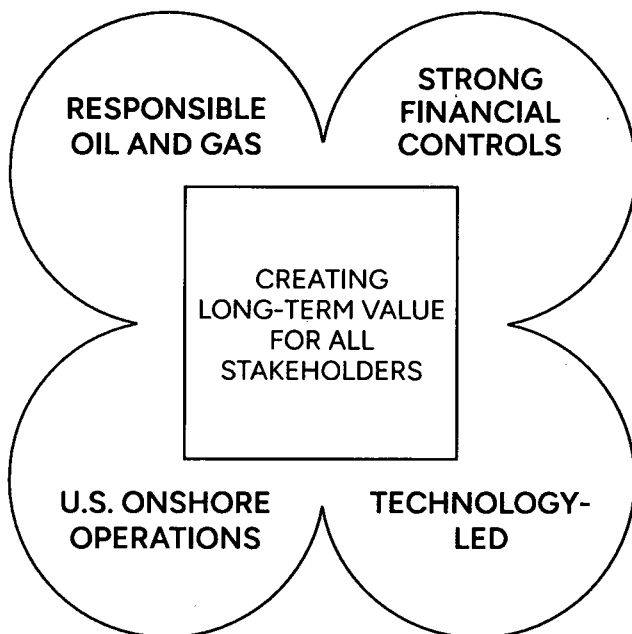
- Responsible stewards of investors' capital
- Responsible stewards of the environment

Our values guide our actions and define everything that we do.

Our assets

We have a balanced portfolio of both operated and non-operated assets located in two established oil producing basins in the U.S.

This strategy provides portfolio diversification and an asymmetrical growth potential.



Why the U.S.?

The U.S. possesses vast reserves of oil and natural gas offering significant opportunities for high-margin exploration and production. The country boasts a well-developed energy infrastructure, including pipelines, refineries, and export terminals, facilitating efficient operations and market access with a favourable regulatory framework and investment climate. Furthermore, the country's advanced technology and skilled workforce contribute to operational excellence and innovation.

PARADOX PROJECT

UTAH

Our flagship asset is in the Paradox Basin, Utah, where we hold a 45,000-acre leasehold with 2P reserves of 2.6 mmboe, 2C resources of 34 mmboe and 2U resources 270 mmboe. We are developing Paradox to delineate the scale and value of the asset.

WILLISTON BASIN

NORTH DAKOTA & MONTANA

We own a growing suite of non-operated production and near-term production assets in North Dakota and Montana, acquired for their low risk, high return cashflow potential. Our Williston portfolio currently consists of working interests in over 200 modern horizontal wells and had a turnover of US\$41.1 million in FY 2022. Cashflow from the Williston production will be used to fund the planned Paradox project development.

Our balanced asset base provides portfolio diversification and an asymmetrical growth potential.

Find out more about our assets and operations on pages 8-14

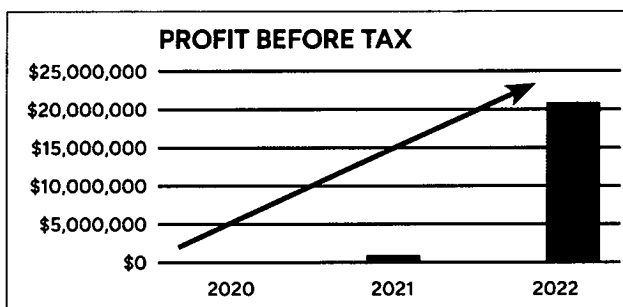
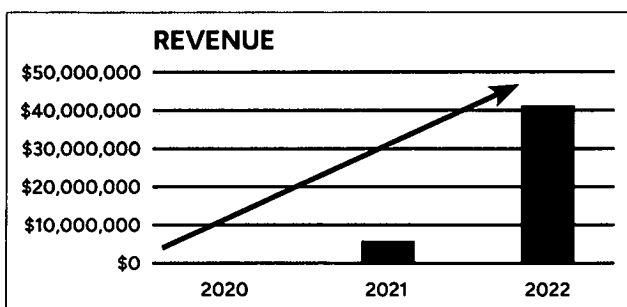
Chairman's Statement

On behalf of the Company's Board of Directors (the "Board"), I am pleased to present the Company's financial and operational results for the 2022 financial year which reflect the hard work, dedication and focus of the Zephyr team.

The team's execution of our strategy and focused initiatives has driven another year of excellent environmental, financial and operational performance. Zephyr continues to be well positioned as a profitable, cash-generating exploration and production group focused on responsible resource development from carbon-neutral operations in two established oil producing basins in the Rocky Mountain region of the U.S.

The Group reports a near seven-fold increase in revenues from the prior year to US\$41.1 million (2021: US\$6 million), and profit before tax of US\$21.2 million (2021: US\$1 million), highlighting the extent of the Group's growth during the year.

Our balanced portfolio of operated and non-operated assets is expected to continue to yield strong results for Zephyr in the future, with cashflows generated from our non-operated portfolio primarily used for the continued development of our flagship project in the Paradox Basin, Utah, U.S. (the "Paradox project"), as we pursue our strategic objective of opening up the next prolific onshore U.S. oil and gas play, while focusing on the delivery of safe, reliable, and responsibly produced hydrocarbons.



“ We continue to make sustained progress with our primary goal of opening up the next prolific onshore U.S. oil and gas play

Operational activity

Paradox project

During the period under review Zephyr continued to make material progress towards unlocking what the Board believes to be the significant potential value from our Paradox project. From a lease holding perspective, and due to an opportunist acquisition, our working interest in the Paradox project has now increased to one hundred percent (“%”) and covers over 45,000 acres with maiden reserves and a large contingent resource base - significant increases from 2021.

Despite a number of challenges, (from historically harsh climatic conditions, supply chain issues and operational challenges associated with the targeting of a highly pressured reservoir), we are pleased that drilling results have demonstrated flowing hydrocarbons in both wells that have been drilled to date and both of which appear capable of commercial production.

Of importance to Zephyr is that drilling success to date has been achieved utilising both hydraulic stimulation and production via natural fractures, indicating significant optionality for the large-scale development of the project.

The updated Competent Person Report (the "CPR") for the project, which was completed during the period, further highlighted the substantial potential scale and profitability of the Paradox project. Following the acquisition of the remaining 25% working interest in the project (completed in early 2023), the CPR reports net to Zephyr, 2P reserves of 2.57 million barrels of oil equivalent ("mmbobe"), 2C contingent resources of circa 34 mmbobe and 2U unrisks prospective resources of 270 mmbobe.

Our key focus for the next year involves getting our two newly-drilled wells into full commercial production. After many years of committing significant resources and investment to the project this is expected to be a landmark period for the Group and one which I hope will see the patience of the Shareholders of the Company (the "Shareholders") rewarded.

A special word of thanks to our team for how it dealt with the well control incident that we experienced in April 2023. It was a testament to the experience, depth and hard work of our operations team that the incident was managed with no injuries and minimal environmental impact.

Williston Basin

In 2021, the Group stated that one of its key objectives was to establish production and positive cashflow via acquisition. The growth achieved since then through the development of our non-operated asset portfolio has been exceptional.

From a standing start in 2021, the Group has built a portfolio of interests in more than 220 wells operated by top-tier operators in one of the most active and prolific basins in the U.S., and these interests have generated high margin cashflows which provided funding for our Paradox project and further investment in the non-operated portfolio.

The growth of our non-operated asset portfolio resulted in revenues of US\$41.1 million during the year ended 31 December 2022, with production of over half a million barrels of oil equivalent ("boe"). We expect to see further growth from our non-operated portfolio in 2023.

During the year, we also implemented an inaugural hedging programme which had the effect of locking in over US\$30 million of forecasted Williston Basin revenue over a two-year period. This hedging programme allowed us to provide cashflow surety related to our debt obligations, as well as to de-risk funding requirements for our ongoing activity in the Paradox, while still allowing for additional exposure to future price fluctuations.

Environmental, Social and Governance ("ESG")

Followers of Zephyr will be familiar with our commitment to stewardship of both the natural environment and shareholder capital being at the core of all our activities. Prudent and careful cash management and environmental focus are central tenets of our philosophy and remained our key operating principles during the period. The Board firmly believes this is not only the proper way to operate the Group but an approach that will ensure our ongoing success on behalf of all stakeholders.

We believe good environmental and operational performance, supported by the appropriate levels of governance, is the optimal way to drive superior investor returns.

As we grow, we will continue to foster a safe working environment and be active participants in the communities in which we operate. Sustaining our local communities through environmental stewardship, social responsibility and strong corporate governance is an extension of our mission and reflects our goal to make a lasting and meaningful positive impact in these communities.

I am proud that we continue to achieve carbon-neutral status as an oil and gas producer. This is achieved through our Verified Emission Reduction credits ("VERs") programme, which aims to offset all Scope 1 carbon emissions from both our operated and non-operated assets and which is administrated through the Prax Group ("Prax"), a leading UK-based energy trading company.

As the recent well-control incident demonstrated, the delivery of our near and longer-term ambitions and strategy would not be possible without a clear focus on mitigating and managing day-to-day risks, including costs, safety and the wider operating environment. We have a zero-harm safety culture focused on continuous improvement to achieve an injury-free and safe work environment.

Outlook

Looking ahead, with a diverse portfolio of cash-flowing assets, potential for substantial future organic growth, a solid financial footing and a talented and dedicated team of employees, we continue to be extremely optimistic about Zephyr's future.

Our key goals for 2023 are to move the Paradox project into full commercial production while continuing to grow our non-operated asset portfolio.

We remain firmly committed to delivering long-term value to our Shareholders, while upholding our core values of being responsible stewards of our Shareholders' capital and responsible stewards of the environment in which we operate.

Conclusion

I would like to thank our employees and contractors for their hard work in 2022, especially those on site who worked tirelessly through historically difficult conditions last winter.

I also wish to express gratitude to our Shareholders, lenders, advisers and other stakeholders for their ongoing support to the Group.

The Board is looking to the future with a high degree of confidence as we continue in our pursuit of building a group of which all our stakeholders can be proud.

RL Grant
Chairman

23 June 2023

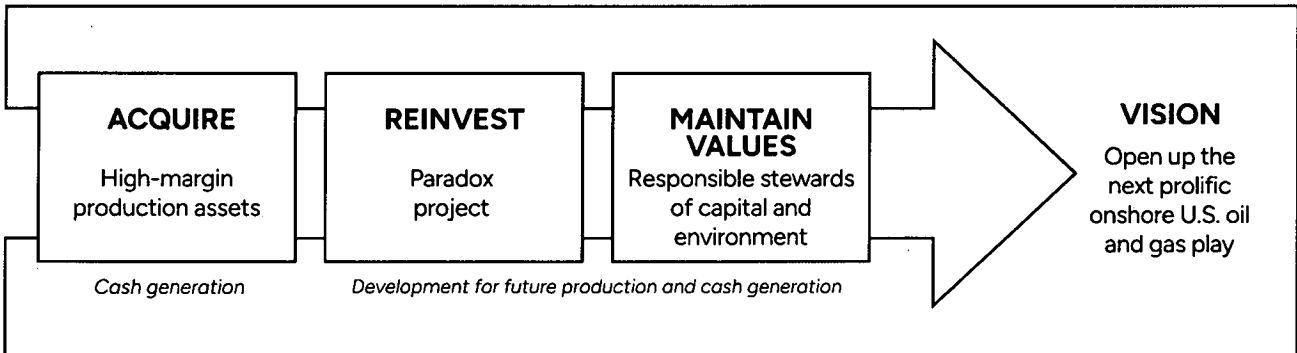
Our Strategy and Value Proposition

Our strategy

Our corporate strategy remains consistent and clear - deliver long-term stakeholder returns by maximising cashflow generation from our non-operated, cash-generative portfolio to systematically develop our flagship Paradox project, with the primary goal of opening up the next prolific onshore U.S. oil and gas play.

We are focused on long-term production of profitable volumes of oil and gas across our portfolio. Stringent cost management and disciplined capital allocation will provide Zephyr the financial flexibility to promote further growth both organically and through value-accretive opportunities.

This will be achieved through our three strategic pillars:



ACQUIRE VALUE ACCRETIVE PRODUCTION ASSETS

Working interest positions in value accretive, high-quality, high-margin production assets with significant near-term growth potential in the Williston Basin

Utilise cash generation from portfolio to develop flagship Paradox project

REINVEST IN THE PARADOX PROJECT

Continue to develop our Paradox acreage - further define the project and materially increase reserve base

Increase land position and acquisition of infrastructure to optimise development and materially reduce forecast upfront expenditure

Move to cash generative production

MAINTAIN VALUES

Company activity to be carried out consistently with our core values of being responsible stewards of investors' capital and responsible stewards of the environment.

“ During the period, the Group achieved multiple operational milestones, most notably with the first flowing hydrocarbons from the Paradox project and with the rapid growth of our highly profitable cash generating non-operated portfolio

Value proposition

<p>REVENUE GENERATION & CASHFLOW</p>	<p>SIGNIFICANT DEVELOPMENT OPPORTUNITY</p>	<p>PRODUCTION GROWTH PIPELINE</p>
<p>Williston: Interests in circa 220 non-operated wells available for production offering strong margins and rapid investment payback – US\$41.1 million in revenue FY 2022 from production of over 500,000 boe</p> <p>Gross profit from Williston production of US\$22.8 million for FY 2022</p>	<p>Paradox Project: 45,000-acre position with significant inventory in an emerging basin where modern drilling and completions have not been used prior to Zephyr</p> <p>Significant inventory across the Paradox, with 2U potential of over 270 mmmboe</p> <p>Further resource/reserve upside at Paradox</p>	<p>Additional producing wells at Williston to be brought online in 2023 and beyond</p> <p>2H 2023 Paradox project moving from appraisal into development project – flush production when 36-2 and 16-2 come online</p>
<p>FINANCED FOR GROWTH</p>	<p>RESPONSIBLE OPERATIONS</p>	
<p>FY 2022 net profit after tax of US\$19.3 million</p> <p>Solid cash position</p> <p>Hedging policy to lock-in revenues from production</p>	<p>Carbon-neutral operations</p> <p>Zero harm safety culture</p> <p>Utilise existing roads and infrastructure to create minimal surface disruption</p> <p>Minimise community impact</p>	

Chief Executive Officer's Report and Operating Review

Principal objectives and strategies

Zephyr Energy plc is an oil and gas exploration and production group operating in the Rocky Mountain region of the U.S.

The Group's stated mission is to open up the next prolific onshore U.S. oil and gas play through the development of its flagship Paradox project. The two core values of the Group are to be responsible stewards of investors' capital and responsible stewards of the environment.

To achieve this mission, the Group has prioritised:

- Constructing a team with significant experience in the U.S. oil and gas sector, with a particular focus on operations, development, governance, finance, merger, acquisition and turnaround experience;
- A sharpening of focus - we are wholly focused on responsible exploration and production investment in the Rocky Mountain region and have exited all other legacy sectors and geographies;
- The development of a non-operated asset portfolio that provides cashflow to be reinvested in the Paradox project;
- A continued focus on meaningful ESG efforts, including corporate governance compliance, ensuring carbon-neutrality across our operations, and proactive engagement with the communities in which we operate;
- The leveraging of partnerships (such as the U.S. Department of Energy, experienced operators in the basins in which we operate, and relationships with alternative capital providers);
- The design and build of a technology-led acquisition process which can rapidly assess opportunities of further interests through acquisition, farm-in agreements or joint venture arrangements; and
- Tight financial control and cash conservation.

Review of operations and future developments

Background

The 2022 financial year, and the period since, were a time of intense operational activity during which Zephyr continued to build on the momentum gained in 2021. During the period under review, the Group achieved multiple operational milestones, most notably with the first flowing hydrocarbons from the Paradox project and with the rapid growth of our highly profitable cash generating non-operated portfolio.

As outlined in the Chairman's Statement, the Board remains fully committed to the primary goal of opening up the next prolific onshore U.S. oil and gas play through the systematic development of the Paradox project and our key goal for the next period is to establish commercial production from the project.

The Paradox project is located in the Paradox Basin, Utah, U.S. where Zephyr operates a now 45,000 acre leasehold position with demonstrable scale and impressive upside potential. The drilling success achieved during the period was a significant appraisal milestone, and the Board are both optimistic and excited about unlocking additional value from the project by progressing to commercial hydrocarbon production over the coming months.

The Group's non-operated production comes from working interests in wells across the Middle Bakken and Three Forks reservoirs in the Williston Basin (in both North Dakota and Montana). By the end of March 2023, Zephyr had working interests in 223 wells that were available for production. 2022 sales volumes from the portfolio averaged 1,410 barrels of oil equivalent per day ("boepd") (2021: 263 boepd).

The Board's strategy is to utilise the majority of the considerable cashflows generated from the non-operated Williston Basin portfolio in the Paradox project development programme, and this organic growth strategy will continue.

Paradox project – operated asset

Overview

The period under review was highlighted by the drilling of two successful wells, the State 16-2 LN-CC well (the "State 16-2 well") and the State 36-2 LN-CC well (the "State 36-2 well"), a production test of the State 16-2 well and increases in both acreage and working interest percentages across our Paradox project land position. In addition, we acquired surface assets and infrastructure that will facilitate us in bringing the project into production.

The Board believes that the Paradox project has substantial potential upside. Of significance, our main geological target, the Cane Creek reservoir has two demonstrable methods of development (via the targeting of natural fractures and through hydraulic stimulation). Both wells drilled to date have discovered hydrocarbons, and both appear capable of commercial production when ultimately tied into natural gas infrastructure. In addition, eight overlying reservoirs have been high graded as suitable for future exploration and potential development.

The second half of 2023 is expected to be a major inflection point for the Paradox project, one in which the project moves from its current appraisal status into a cash-flowing development asset. The Group expects to see flush production when the State 36-2 and State 16-2 wells come online.

The drilling of the two wells has provided the Group with a wealth of new geological information which has in turn resulted in a far greater geological understanding of our acreage position. This information includes strong evidence of:

- A continuous resource play (tight oil and tight gas);
- Repeatable petrophysics across a large area;
- Geology which correlates with the seismic;
- Consistent reservoir thickness within a sub area;
- High reservoir pressures;
- High matrix permeability for a resource play;
- A reservoir which can be stimulated (with favourable rock mechanics albeit under high stress); and
- The presence of productive natural fractures

Competent Persons Report ("CPR")

Following the successful completion of the State 16-2 well in late 2021, Zephyr commissioned the independent reserve consulting firm Sproule International ("Sproule") to complete a CPR to assess the Group's reserves across both the Cane Creek reservoir and the eight overlying reservoirs.

Sproule audited the crude oil, natural gas, and field condensate reserves and contingent resources and the associated future net revenue attributable to the Group's White Sands Unit ("WSU") and Cane Creek Drilling Spacing Unit ("DSU") with an effective date of 31 March 2022. Sproule also conducted an audit of the Prospective Resources attributable to the WSU on the same date.

The Board was delighted with the conclusions drawn by Sproule, which demonstrated the impact of Zephyr's drilling success of the State 16-2 well and further highlighted the substantial potential scale and profitability of the Paradox project.

The key findings from the CPR were as follows:

- Net 2P Proved Reserves: Proved Reserves of 2.1 million barrels of oil equivalent ("mmboe") net to Zephyr, the Group's first proved reserves booked in the Paradox project (following the Group's acquisition of the remaining 25% non-operated interests Proved Reserves increased to 2.6 mmboe).
- Net 2C Contingent Resources: 27 mmboe net to Zephyr, more than double the 12.3 mmboe in the previous CPR prepared in 2018 (following the Group's acquisition of the remaining 25% non-operated interests Net 2C Contingent Resources increased to 34 mmboe).
- Net 2U Prospective Resources from overlying reservoirs: 203 net unrisks mmboe net to Zephyr (68 mmboe risked with a weighted-average 33% chance of success) (following the Group's acquisition of the remaining 25% non-operated interests Net 2U Prospective Resources increased to 270 mmboe).

Sproule's evaluation took place across 30,700 acres of Zephyr's Utah assets. Zephyr now operate 45,000 gross acres in the Paradox Basin and further evaluation is planned for the acreage not yet included in the CPR.

Project development and consolidation

Having completed a comprehensive restructuring of the Paradox acreage position in 2021, the Group continued with the consolidation of the project during the period. This was spearheaded by the acquisition of additional project acreage, the acquisition of a number of infrastructure assets and through the acquisition of the remaining 25% working interest in the core acreage of the project.

Acquisition of additional acreage

In October 2021, the Group announced U.S. Federal Government approval for the formation of a new federal unit, the WSU, which enables Zephyr to proceed with an optimal long-term development plan for the acreage. In August 2022, Zephyr announced the acquisition of an additional 1,920 acres (the "new acreage") in the Paradox Basin, directly adjacent to the WSU. The new acreage has been approved for inclusion into the federal unit by removing less prospective acreage that had yet to have 3D seismic acquisition acquired across it. The acreage is largely covered by Zephyr's existing 3D seismic, and directly borders the Zephyr lease on which the State 36-2 well is located.

This opportunistic new acreage acquisition was part of the Group's ongoing portfolio management of its Paradox acreage. This active land management strategy has resulted in a growing portfolio of development opportunities which the Board believes is increasingly difficult to replicate in today's regulatory and political environment.

In February 2023, the Group completed the acquisition of the remaining 25% working interest in the core acreage of the Paradox project. This acquisition increased Zephyr's net acreage in the project to circa 45,000 acres, further details of which are outlined below.

Working interest acquisition

In December 2022, Zephyr announced that it had agreed to acquire the remaining 25% working interest in the core acreage of the Paradox project from Rockies Standard Oil Company LLC ("RSOC"). The acquisition completed in February 2023.

The total consideration payable for the working interest is up to US\$3 million, payable by way of the issue of new Ordinary Shares of 0.1 pence each in the capital of the Company ("Ordinary Shares") at a price of 6.05 pence per Ordinary Share, representing a circa 11% premium to the Company's mid-market closing share price on the prevailing share price on 20 December 2022.

- A first tranche of 13,483,095 new Ordinary Shares was issued to RSOC on the completion of the acquisition;
- A second tranche of 26,966,189 new Ordinary Shares will be issued upon Zephyr's final investment decision with respect to the contract award to a primary contractor to commence construction activities to make the Powerline Road gas processing plant operational; and
- All equity issued to the vendor will be subject to a lock-up period which expires at the earlier of 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 15 December 2023.

The acquisition provided an immediate opportunity for Zephyr to consolidate its working interest in the core acreage of the Paradox project and includes the following assets:

- The remaining 25% interest in the State 16-2 well (with an estimated NPV-10 of US\$3.1 million);
- The remaining 25% interest in the State 36-2 well; and
- Zephyr retains its 100% ownership in the infrastructure assets acquired in 2022.

The acquisition was also immediately accretive across all reserve and resource categories. Zephyr's technical team estimated that the 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.

As of today, and following activity in the period, the tenure of the Paradox project is strong and the land position is stable. This security and right to operate provides the Board with the confidence to further invest in the drilling activity on the project.

The period under review began with the drilling of the State 16-2 well and ended with the spud of the State 36-2 well and both were successfully drilled and demonstrated the ability to flow commercial volumes of hydrocarbons.

State 36-2 well drilling

In November 2022 the Group announced that drilling on the State 36-2 well had commenced with the prime objective being to target potential production from the Cane Creek reservoir.

After a complex drilling operation hampered by extreme weather conditions and, having reached the Cane Creek reservoir at a depth of 9,598 feet true vertical depth, the well experienced a significant influx of hydrocarbons which consequently led to suspension of drilling operations while the well was stabilised. The influx was caused by the well intersecting an apparent major natural fracture network in the reservoir, and the resultant flowing hydrocarbons were diverted safely at surface through the drilling rig flare stack whereby they were subsequently flared. Throughout this period, Zephyr's operations team followed appropriate well control procedure and stabilised the well without incident.

This influx was managed and safely controlled, which subsequently allowed for the drilling of an additional 132 feet into the Cane Creek reservoir, at which point the Group elected to run production casing down the total depth of the well.

Operations to run 7-inch production casing were successful and the well was made fully safe and the drilling rig was released. The Group then planned to commence production testing and potential completion of the fractured Cane Creek reservoir interval.

In addition to near-term testing, the running of the 7-inch casing string provided the Group with the option to return to the well (should it elect to do so) to drill an extended lateral at a later date. A subsequent lateral would enable the Group to test for further natural fracture presence at this location within the Cane Creek reservoir, and also enable the well to be completed by hydraulic stimulation across a longer lateral should Zephyr seek to increase well productivity in the future.

Results from the drilling operations indicated that the well penetrated a folded and naturally fractured Cane Creek reservoir, features which have been highly productive in other Cane Creek wells. Pore pressure analysis suggested that the well encountered very high reservoir overpressure, with formation pressures estimated at around 9,300 pounds per square inch (which is broadly consistent with previously drilled offset wells).

The well further delineated the presence of natural gas and condensate within a large structural compartment, and at a new location within Zephyr's acreage and 3D seismic coverage, which provided additional confirmation of Zephyr's model for hydrocarbons in place across the acreage position.

State 36-2 well production test and well control incident

On 8 March 2023, the Group announced that planning for the production test had been completed and that all services for the test had been procured. A Zephyr-contracted service rig was mobilised to the well-site and operations on the ground commenced. This was achieved despite the ongoing difficult winter weather conditions encountered in Utah this year. Workover operations (which were to include perforating the well in the productive portion of the Cane Creek reservoir) and subsequent production testing were estimated to take four to six weeks. As the well was expected to flow from natural fractures, no hydraulic stimulation was expected as part of this test.

On 7 April 2023, as workover operations were being completed, the well experienced a significant control issue despite multiple attempts to secure the well by the rig crew. The incident was initially caused by the failure in a safety valve, and subsequently resulted in hydrocarbons being released from the well in an uncontrolled manner.

In keeping with safety procedures, all personnel were safely evacuated without injury. All relevant authorities were notified and a specialist well control team (recommended by the Group's insurers) was deployed to bring the well under control as quickly as possible.

Ultimately, well control efforts were successful and remediation and clean-up operations have commenced. A third-party confirmatory environmental survey was subsequently completed and the initial results found no evidence of lingering environmental impact.

At present, the well is static and under control, and Zephyr is in the process of completing well work necessary to commence a production test. This work included a methodical process to remove and inspect the 2-7/8-inch production casing. Once that work is completed, the Group plans to undertake a final cement squeeze and then perforate the casing across the reservoir interval prior to production testing the well.

Timing of the well test will be dictated by operational conditions to ensure well control is maintained and working conditions are safe for our team. Evidence of pressures and hydrocarbons in the well remain substantial.

State 16-2 well

Following on from the successful drilling, completion and production test of the State 16-2 well in 2021, the first phase of the extended production testing on the well was completed within the flare consent limit set by the regulatory bodies, and Zephyr subsequently tested the well a second time to commission surface facilities, improve flow assurance and to gather more production data.

Unfortunately, the second well test was hampered by severe weather and initial surface facility commissioning issues which resulted in delays to the programme and, at times, intermittent operational activity.

Once the start-up commissioning issues had been successfully resolved the well was initially brought online at choked-back, moderate rates to test for flow assurance at varying levels of production. At a controlled rate of 2 million cubic feet of gas per day and 100 barrels of oil per day (an average of 433 boepd) the well flowed continuously and surface flow assurance efforts proved successful.

As flow rates were increased above those levels, well performance became limited by freshwater pumping capacity and was subsequently impacted by the formation of down hole salt precipitate, a not uncommon issue. The precipitate, which blocked and subsequently cleared multiple times, impacted the well's flow capacity to achieve extended higher rates. The Group was in early stages of testing higher rates when its mandated flaring limits were reached.

The Group is now assessing whether the precipitate issue is a function of continued flow back of injected completion fluids or a function of normal flowing conditions. If it is a result of normal flowing conditions, a series of mitigation solutions that have been successful with other wells in the Paradox in the past can be applied, and the Group will likely test these solutions in the coming months (subject to regulatory approvals) to fully determine the potential of the reservoir.

Acquisition of infrastructure assets

In September 2022, Zephyr announced that it had entered into an agreement to acquire a package of oil and gas assets located on and around the Paradox project.

Zephyr acquired 21 miles of natural gas gathering lines, the Powerline Road gas processing plant (not currently in operation), rights of way for additional gathering lines, active permits, five existing wellbores and additional acreage which is contiguous to the WSU.

The assets acquired will enable Zephyr to substantially reduce the capital required to build the necessary gas export infrastructure for its forecast gas production from the Paradox project. The consideration for the asset package was US\$750,000.

Next steps

The immediate next steps on the Paradox project are as follows:

- To complete the production tests on the State 36-2 well;
- The completed production test, when combined with data from the State 16-2 production test, will provide information related to the sizing of the gas processing infrastructure required for commercial roll-out of the project. The infrastructure will then be constructed and commissioned; and
- Once the infrastructure is in place and the Dominion pipeline take-away is completed export of hydrocarbons from the project will commence.

Williston project – non-operated asset

Overview

In 2021, Zephyr stated that one of its key goals was to establish production and positive cashflow either through its existing portfolio (the Paradox project), via acquisition, or through a combination of both. Since then, the Group has delivered on this goal and the Board is pleased to report that, following twelve discrete acquisitions, the Group now has a non-operated asset portfolio that delivered sales of over 1,410 boepd, net to Zephyr, in 2022, with corresponding revenues of US\$41.1 million for the year.

As at 31 December 2022, Zephyr had working interests in 223 wells that were available for production. The working interests are in prime locations, and the majority of the wells are operated by Chord Energy Corporation, a leading Williston Basin producer.

The Group's non-operated portfolio continues to perform above the Board's expectations, in part due to the high commodity price environment in 2022. In April 2022, in order to lock in cashflow to develop our Paradox asset and meet the Group's funding commitments, the Group hedged just under half of its forecast 2022 production at more than US\$98 per barrel of oil. The hedging programme was structured to provide cashflow surety related to the Group's debt obligations, as well as to de-risk funding requirements for the Paradox project, while allowing for additional exposure to future fluctuations in prices. The Group announced an extension to this hedging programme in May 2023.

The Group will continue to develop and grow its non-operated portfolio through opportunistic acquisitions.

Acquisitions

The non-operated portfolio has been carefully crafted and achieved through twelve discrete acquisitions, the most important one being the transformative acquisition of the Kaiser assets completed in February 2022 (the "Kaiser acquisition") which nearly tripled the Group's non-operated production from its four previous acquisitions. The Kaiser acquisition was the driver of the impressive performance of the non-operated portfolio in 2022.

The Kaiser acquisition provides a stable foundation of low-decline production and cashflows from 163 gross producing wells. In addition, 18 drilled but uncompleted wells ("DUCs") have been brought online since and 47 additional gross undeveloped locations are expected to provide meaningful upside for years to come.

The key benefits of the Kaiser acquisition were as follows:

- A diversified, low-decline base of mature production with established history and stable cashflows;
- Near term growth from DUCs currently being brought online;
- Mid to longer term infill drilling opportunities on Zephyr acreage;
- Potential to hedge a significant portion of the existing production at attractive prices to lock in returns and provide downside protection; and
- Excellent complement to (and funding source for) the less mature, higher upside Paradox Basin development

In order to fund the acquisition, the Group undertook an equity fundraising of US\$17.4 million (£12.8 million) in February 2022 and secured a US\$28 million senior debt facility from a long-established North Dakota-based commercial bank, First International Bank & Trust ("FIBT"). See note 22.

On 21 December 2022, Zephyr announced the acquisition of working interests in six further wells, equivalent to a net 1.1 wells, near to Zephyr's current non-operated working interests for a total consideration of US\$2.9 million. In addition, Zephyr is paying the US\$8.9 million CAPEX associated with the working interests to bring the wells into production.

These new wells are expected to provide a Q4 2023 production boost, having been spud in November 2022, and first sales volumes are expected in autumn 2023. The operator of these new wells is Slawson Exploration Company ("Slawson"), a top-tier operator and one of the largest private companies in the Williston Basin. Slawson was an early pioneer of horizontal development in the Williston Basin and has excellent access to oilfield service companies and infrastructure.

Zephyr's working interest in the six new wells ranges from 11% to 32% and management currently estimates 2P Reserves being acquired are circa 550,000 boe net to Zephyr.

Zephyr secured a US\$8 million bridge loan facility, on favourable terms, to part fund the acquisition and associated CAPEX. There was no equity component to the US\$8 million bridge loan facility. See note 22.

2022 Production summary

FY 2022 sales volume from the non-operated portfolio averaged circa 1,410 boepd, net to Zephyr, up from 263 boepd in FY 2021.

FY 2022 revenues were US\$41.1 million, compared to US\$6 million in FY 2021.

At 31 December 2022, 223 wells in the portfolio were available for production, including 17 wells which came online at some point during the quarter. Net working interests across the Williston Basin non-operated portfolio now average 6.3% per well, equivalent to 15 total wells net to Zephyr, all of which utilised horizontal drilling and modern, hydraulically stimulated completions.

Hedging

In April 2022, the Group hedged just under half of its forecast non-operated production for the following two years, with an average hedged production price of US\$98 for the remainder of 2022 and US\$87 thereafter.

In May 2023, the Board elected to enter into additional oil hedge agreements given that most of the hedges acquired in 2022 had since crystallised. Volumes hedged for the nine months ending 31 December 2023 have now been increased from 94,000 barrels ("bbls") to 137,000 bbls, at an average hedged production price of US\$85, with BP Energy Company ("BP"), one of the world's leading energy trading houses, continuing to serve as the counterparty.

Significant decisions made

During the year under review, the Directors approved multiple discrete acquisitions of non-operated assets. The decisions to proceed with the acquisitions and the corresponding debt and equity funding were logical decisions made to ensure the continued growth of the business and the advancement of the Paradox project. All acquisitions were unanimously deemed by Board members to be in the best interests of the Company. Details of the acquisitions can be found in the relevant sections of this Annual Report.

On the Paradox project, the Board approved the acquisition of further project acreage and infrastructure assets. In addition, the Board approved the acquisition of the remaining 25% working interest in the project and the drilling of the State 36-2 well. These were all funded by cashflows generated from the non-operated portfolio. In arriving at the decision to proceed with this activity the Directors considered the cash position of the Group and the importance of progressing the Paradox project. After due consideration, the Directors unanimously considered the activity to be in the best interests of the Company and its Shareholders.

We would like to thank all Shareholders for their continued support.

On behalf of the Board,

JC Harrington
Chief Executive Officer

23 June 2023

Environmental, Social and Governance ("ESG")

Robust management of ESG matters is at the core of what we do and how we work. The Board is unanimously committed to ensuring that every action and investment decision the Group makes is in line with our core values of being responsible stewards of investors' capital and responsible stewards of the environment. This includes the following points of focus:

- Protecting the Group, safeguarding its existing asset base and positioning it for attractive growth opportunities;
- Seeking creative and beneficial funding opportunities in an effort to unlock value from our existing asset portfolio, as evidenced by the U.S. Government funding we received for our recent drilling programme on the Paradox project;
- Adopting a disciplined focus on growth via the acquisition of producing or near-term development opportunities in the Rocky Mountain region. In the current economic climate, we believe that attractive, value-additive acquisitions are available and may be acquired using non-traditional funding structures;
- Tight financial controls and cash preservation which will enable the Group to continue trading effectively; and
- Continuing to ensure management and the Board are aligned with our Shareholders through significant ownership of shares.

Environmental

Protection of the environment and robust environmental management are of primary importance to the Board. The Company is committed to minimising its environmental impact through positive actions and to protect the surroundings in which we operate.

We are committed to:

- Limit our own carbon emissions through our VER credit programme with a goal to mitigate all Scope 1 carbon emissions;
- Comply with applicable environmental laws, regulations and standards of the U.S. where we operate;
- Operate in a safe manner to avoid spills, leaks or accidental discharges of polluting materials;
- Evaluate and utilise new technologies, such as continuous emissions monitoring and solar and battery powered control systems at our operated projects;
- Minimise our land footprint by utilising efficient pad design and co-location of wells;
- Promote efficiency in our use of energy and water with the aim of conserving natural resources;
- Ensure that environmental accidents, incidents, near misses and non-compliances are reported and investigated, and that corrective and preventive actions are implemented as rapidly as possible;
- Monitor and evaluate our own and contractor proficiency and conduct periodic audits to ensure our controls are effective and that environmental standards are being achieved; and
- Reporting transparently on our environmental performance and the status of our environmental objectives and targets

The Board is proud of how Zephyr conducted its operations in the period under review and we will always strive to adhere to our core values.

A major milestone was achieved when Zephyr announced an intention to achieve carbon-neutrality across its Scope 1 operational footprint in 2021 and the Group continued to maintain this throughout the 2022 financial year.

As an integral part of this undertaking, Zephyr is collaborating with Prax a British multinational independent oil refining, trading, storage, distribution and retail conglomerate dealing in crude oil, petroleum products and bio-fuels, headquartered in London. Prax, which has trading offices in London, Singapore and the U.S., worked with Zephyr to measure, reduce and mitigate greenhouse gas emissions across Zephyr's businesses, with mitigation efforts primarily focused on the purchase of VERs from reputable pre-vetted developers of sustainable projects. This exercise includes Zephyr's current corporate activity, its non-operated production assets in the Williston Basin, North Dakota, U.S., and Paradox project activity. The cost of the VER credit programme to the Group was circa US\$0.2 million in the 2022 financial year.

In addition to the environmental benefits that will result from Zephyr's efforts to reach carbon-neutrality, the Group anticipates that this approach will also yield economic benefits including expanded access to a wider group of potential institutional investors, as total ESG-focused assets under management are currently estimated to be over US\$30 trillion globally. Moreover, the average cost of capital for companies with committed ESG and decarbonisation initiatives has been shown to be demonstrably less than that of traditional resource companies. The Board believes that incremental regulatory benefits may also materialise from Zephyr's actions.

Social

Contributing to the communities in which we work is important to the Board. It is essential that the Company conducts its operations in such a way as to minimise the potential impact from our activities and deliver positive outcomes in the communities in which we operate.

We are committed to:

- Comply with applicable social laws, regulations, and good international industry practices;
- Be active participants in our local communities and, in particular, to be supporters of land and grassland conservation projects in those communities;
- Establish suitable platforms to share all requisite information regarding our operations with different stakeholders, including local communities, and promote dialogue and constructive engagement;
- Devise and implement transparent and fair grievance mechanisms for the communities in which we operate and for our workforce. Ensure that grievances are recorded, investigated and responded to in a timely manner; and
- Supporting our colleagues in creating an inclusive and safe environment for them to work

Health and safety

Zephyr has a zero-harm safety culture focused on continuous improvement to achieve an injury-free and safe work environment. It is the Group's policy to provide working environments which are safe and without risk to health and provide information, instruction, training and supervision to ensure the health and safety of its employees. The Board is pleased to report that during the period there were no Lost Time Injuries ("LTIs").

Financial Review

The 2022 financial year saw a transformation in the Group's financial position and performance from the prior year. This was primarily due to the full-year impact of strong performance from the Group's non-operated asset portfolio and the continued investment into both the Paradox and Williston projects.

Income statement

During the year ended 31 December 2022, the Group generated revenue of US\$41.1 million (2021: US\$6 million) from its non-operated asset portfolio, and reported a gross profit of US\$22.4 million (2021: US\$3.3 million), which includes a gain of US\$1.8 million (2021: nil) in respect of the Group's hedging programme. The revenue in the income statement of US\$41.1 million is US\$1.8 million less than the full-year revenue figure provided in the Group's market update of 15 February 2023 of US\$42.9 million. The market update included US\$1.8 million revenue from the final settlement of the Kaiser acquisition. Under IFRS these revenues form part of the acquisition price and therefore do not appear within the Income Statement in these financial statements.

Administrative expenses for the year were US\$4.8 million (2021: US\$2.7 million). The increase from the 2021 financial year highlights the expansion of the Group's operational footprint to provide it with the capacity and capability to develop, manage and grow its operated and non-operated asset portfolios. The increase also reflects expenditure incurred in appraising new opportunities and other business development costs.

The Group reports a foreign exchange gain of US\$6.1 million for the year (2021: US\$0.5 million) which is predominantly in respect of unrealised gains on the restatement of intercompany loans between the Company and its subsidiaries. These gains arise due to the weakness of sterling against the U.S. dollar at the end of 2022.

Finance charges of US\$2.2 million (2021: US\$0.1 million) have been charged in respect of interest charges and associated costs relating to the Group's borrowings and unwinding of discount on decommissioning. See note 7.

During the year ended 31 December 2022, the Group has recognised a deferred tax charge and a corresponding net deferred tax liability of US\$2 million relating to unrelieved tax losses and temporary timing differences arising in the U.S. businesses.

The Group reports a net profit after tax of US\$19.3 million or a profit of 1.26 cents per Ordinary Share for the year ended 31 December 2022 (2021: US\$0.8 million or 0.08 cents per Ordinary Share).

Balance sheet

Total investment in the Group's exploration and evaluation assets as at 31 December 2022 was US\$38 million (2021: US\$22.8 million) reflecting the ongoing investment in the Paradox project.

Total investment in property, plant and equipment as at 31 December 2022 was US\$51.8 million (2021: US\$11.2 million) reflecting the further acquisition of non-operated assets in the Williston Basin, recurring capital expenditure and decommissioning obligations on the non-operated assets.

At 31 December 2022, the Group has recognised US\$1.3 million outstanding derivative contracts in respect of its hedging programme at fair value, of which US\$0.2 million (2021: nil) has been recognised in non-current assets and a further US\$1.1 million (2021: nil) in current assets.

Cash and cash equivalents as at 31 December 2022 were US\$9 million (2021: US\$1.8 million). During the year, the Company raised gross proceeds of US\$17.4 million (2021: US\$15.5 million) through the placing of new Ordinary Shares in the Company.

In February 2022, the Group secured debt funding of US\$28 million and in December 2022 entered into a further 12-month revolving credit facility of up to US\$8 million, of which US\$2.5 million had been drawn down at 31 December 2022. The proceeds from these debt instruments were used to complete the Group's acquisition of non-operated assets in the Williston Basin.

Subsequent developments

In June 2023, the Company announced that it had raised a further US\$3.9 million (before expenses) through the placing of new Ordinary Shares in the Company.

At 16 June 2023, the Group had cash and cash equivalents of US\$7.5 million.

Key performance indicators

As part of Zephyr's ongoing development of the Paradox project and the build-out of the non-operated portfolio in the Williston Basin, the Board tracks its performance against indicators that reflect the strategic, operational and financial progress, as well as our impact on society and the environment. These indicators allow the Board, management and stakeholders to compare Zephyr's performance to its goals.

	Why we measure	Performance
Safety performance	<ul style="list-style-type: none"> The Group has a zero-harm safety culture focused on continuous improvement to achieve an injury-free and safe work environment We require employees and contractors to work in a safe and responsible manner and provide them with the training and equipment to do so 	<ul style="list-style-type: none"> There were no reported LTIs during the 2022 financial year (2021: nil)
Adjusted EBITDA (EBITDA adjusted for unrealised foreign exchange and hedge gains)	<ul style="list-style-type: none"> Indicator of the Group's cash generation to fund expenditures and/or return capital to Shareholders 	<ul style="list-style-type: none"> 2022 Adjusted EBITDA was US\$28.2 million 2021 Adjusted EBITDA was US\$2.3 million
Net production	<ul style="list-style-type: none"> Indicator of revenue generation potential Measure of progress towards achieving production forecasts and driving profitable production growth 	<ul style="list-style-type: none"> FY 2022 production of 514,650 barrels of oil equivalent ("boe") 484% increase in production from FY 2021 production of 88,037 boe from non-operated Williston Basin
Growth of Paradox project reserve resource play	<ul style="list-style-type: none"> Indicator of economic viability and long-term production potential of projects 	<ul style="list-style-type: none"> During the year the Group booked its first reserves on the Paradox project and increased the reserve/resource base by acquiring the remaining 25% working interest in the project post-year end At 31 December 2022, the Group had Paradox Basin 2P reserves of 2.57 million barrels of oil equivalent ("mmboe"), 2C resources of circa 34 mmboe and 2U resources of 270 mmboe
Carbon emissions	<ul style="list-style-type: none"> Zephyr Energy is committed to sustainable and responsible oil and gas production 	<ul style="list-style-type: none"> Recorded Scope 1 carbon-neutrality from both operated and non-operated assets VER credit partnership with Prax which aims to mitigate all Scope 1 carbon emissions. The cost of the scheme was circa US\$0.2 million in the 2022 financial year.

CJ Eadie
Finance Director
23 June 2023

Principal Risks and Uncertainties

There are a number of key potential risks and uncertainties which the Board believes could have a material impact on Zephyr's long-term performance and could cause actual results to differ from expected and historical results. The Board considers these risks during its regular meetings and discussions.

The principal risks and uncertainties that the Group faces are:

Non-financial risks

- **Changes in government law or regulatory policy in the U.S.** could materially affect the rights and title to the interests held by the Group, and the operations and financial condition of the Group could be adversely affected. The Group is in continual proactive dialogue with both its UK and U.S. regulators to ensure ongoing compliance with its obligations.
- **Climate related issues** remain at the forefront of Board conversations and decisions. While climate-related opportunities continue to emerge in this rapidly evolving area, the Board recognises that these issues also present a risk to Zephyr that environmental regulations, climate change concerns, and investor driven change may result in (i) increases to the cost of doing business, (ii) hinder our ability to continue executing our strategy, or (iii) restrict access to certain markets or investors.
- **Zephyr is dependent on the continued services and performances of its core management team.** The loss of key personnel could have an impact on our ability to meet our strategic objectives. The Remuneration Committee reviews the employment terms for executives and key operational management with the aim of attracting, motivating and retaining key personnel for the Group. The Committee has also engaged an external, independent consultant to benchmark compensation against similarly sized industry group peers.
- **Potential impacts from a lack of adherence to health and safety policies** may result in fines and penalties, serious injury or death, environmental impacts, statutory liability for environmental redemption and other financial and reputational consequences that could be significant. Effectively managing Health and Safety Risk exposure is the top priority for the Board and management team which regularly review health and safety programmes and mitigations. Health and safety training is included as part of all staff and contractor inductions. Detailed training on our field manual procedures has been provided to key stakeholders to ensure processes and procedures are embedded throughout the organisation and all operations.

- **The results from the ongoing drilling campaign and production testing on the Paradox project** will have a significant impact for the Group. Poor results from the wells could have wider implications on the future development of the project. The Board is ensuring that all activities are appropriately planned and the technical team has undertaken a thorough review of geological and technical risks.
- **There is execution and geological risk on the Paradox wells.** The wells are deep, drilled in over pressure reservoirs, and potentially have to be hydraulically stimulated to deliver commercial production. The Group's technical team has considerable experience of working on this project and has achieved good results to date in identifying and mitigating geological and execution risks. In addition, the service industry is very well developed in the U.S. and the Group will only engage with experienced contractors and service providers with detailed knowledge of relevant hydraulic stimulation techniques.
- **Cybersecurity risks** for companies have increased significantly in recent years due to the mounting threat and increased sophistication of cybercrime. A cybersecurity breach, incident or failure of our IT systems could disrupt our businesses, put employees at risk, result in the disclosure of confidential information, damage our reputation and create significant financial and legal exposure. Employees are our first line of defence against these attacks and we promote secure behaviours to help mitigate this growing risk. We engage with key technology partners and suppliers to ensure potentially vulnerable systems are identified and secured.

Financial risks

- **There is a risk that the carrying value of the Group's assets will not be recovered** through future revenues, leading to impairment losses. The Group manages the recoverability of its assets and assesses the economic viability throughout the exploration, development and production phases.
- **Commodity risk** – The activities of the Group are subject to fluctuations in prices and demand for commodities, which are volatile and cannot be controlled. Fluctuating commodity prices could have a significant impact on the Group's operations. During 2022, the Group implemented a hedging programme to manage the potential downside risks in fluctuating commodity pricing. This hedging programme is expected to enable the Group to meet its ongoing funding obligations.
- **Currency risk** – Funds are maintained by the Group in Great Britain Pounds sterling ("GBP") and United States Dollar ("US\$"). There is a risk that purchasing power in the U.S. is lost through foreign exchange translation. The Group considers its foreign exchange risk to be a normal and acceptable business exposure and does not hedge against the risk at present.
- **Funding risk** – There is a risk that there will be insufficient access to funding to meet all corporate, development and production obligations and activities. The Group manages liquidity risk by maintaining adequate cash reserves and monitoring forecast and actual cashflows. The Board reviews the Group's cashflow projections and forecasts on a monthly basis.

Statement by the Directors in Performance of their Statutory Duties in accordance with S172(1) and 414CZA of the UK Companies Act 2006

The Board of Directors of Zephyr Energy plc, both individually and together, have acted in good faith, in a way they consider would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in S172 of Companies Act 2006).

The Board defines its stakeholders as the many individuals and organisations that are affected by our operations and with whom we seek to proactively and positively engage on a regular basis. We strive to maintain productive, mutually beneficial relationships with each stakeholder group by treating all stakeholders with fairness and respect and by providing timely and effective responses and information.

Engaging our stakeholders informs our decision-making, including consideration of our long-term strategic objectives and the activities that support these aims.

Our engagement with stakeholders includes personal contact via face-to-face or telephone conversation, email exchange, company reports, press releases, investor presentations or conference participation and other company engagement.

As the operator of long-life assets, we naturally make decisions that consider the long-term success of Zephyr and value creation for our stakeholders.

The following is a summary of stakeholder engagements from 2022.

Stakeholder engagement

Equity and debt investors

The Board seeks to understand and meet investor needs and expectations. It has established a strategy and business model which it believes will promote long term value to investors. The Company's details are displayed on its website allowing investors to contact the Company if they so wish. The Board attaches great importance to providing investors with clear and transparent information on the Group's activities and strategy. Details of all communications are provided on the Company's website, including historical annual reports, press releases, company presentations and governance related material.

The major interests in the Company's Ordinary Shares are set out in the Directors' Report. Through our regulatory updates and the publication of our half and full year financial reports, we inform Shareholders regarding the status of their Company. Further Shareholder engagement includes the Annual General Meeting ("AGM") (although attendance may be affected due to restrictions imposed as a result of the pandemic) and discussions with investors when questions are asked.

On a monthly basis we provide financial and operational updates to our commercial lender.

Employees

Our employees are essential to the Group's success and growth. We recognise that we need a skilled and committed workforce, with a diverse range of experience and perspectives, and we value the diversity and the contribution that it affords

The Board believes that the Group's success is reliant on the commitment of our employees. We pride ourselves on our friendly and safe working environment. Employee feedback is sought through formal review processes and via the head of each department. Training is provided where necessary.

Governments and regulators

Executive and operational management engage with federal, state and local regulators to address legislative, regulatory and operational matters important to our business and our industry. We also proactively engage with regulatory agencies throughout the year to keep them apprised of our operational and well retirement activities and to provide objective and measurable progress indicators.

Our transparency in engagement and delivering on expectations were two key considerations in the state of Utah when dealing with the well control incident that we experienced in April 2023.

Joint operating partners

As an operator of assets, Zephyr works on behalf of our industry partners to safely and efficiently manage our assets.

We fulfil our duties as operator by carefully managing our responsibilities including prompt payment of expenses and keeping leases in good standing.

Communities

We actively seek to support sustainable socio-economic development in the communities in which we live and work and aim to minimise any potential negative impacts from our operations.

Environment

The Group fully recognises its obligation to minimise its impact on the environment and to be responsible in all its activities. This is currently achieved by complying with the ISO14001 quality standard and support of certain environmentally focussed charities.

More information on how the Company considers and discharges its obligations in respect of S172 Companies Act 2006 in respect of its stakeholders can be found in the Corporate Governance section of this document (page 21) and in respect of the environment at the relevant section above

The Strategic Report on pages 1 to 20 was approved by the Board on 23 June 2023.

On behalf of the Board,

JC Harrington
Chief Executive Officer

23 June 2023

Governance

Board of Directors

Rick Grant

NON-EXECUTIVE CHAIRMAN

Rick has a 40-year track record of success in the oil and gas industry. Rick is co-founder and Chairman of Origin Creek Energy LLC ("OCE"). OCE makes US\$2-US\$20 million foundational investments in the domestic U.S. energy sector. The firm's capital is provided by its partners and two affiliated family offices.

Prior to OCE, Rick was CEO of Suez North America LNG and then served as CEO of Suez Global LNG. During his career, Rick has had significant success managing multi-billion dollar organisations and developments, and has been involved in a number of profitable corporate exits.

Colin Harrington

CHIEF EXECUTIVE OFFICER

Colin began his career in energy finance in 1998, and previously worked in New York, London, Washington DC and San Francisco. Over the course of his investment banking and investment management career, he has had significant experience executing recapitalisations and turnarounds at natural resource companies.

Prior to Zephyr, Colin served as CEO of Origin Creek Energy, a special situations investor in the onshore US oil and gas sector. Prior to that, Colin was Managing Partner of the Wellford Energy Group and former CEO of Wellford Capital Markets, a FINRA-registered broker dealer boutique which specialised in the energy markets.

Chris Eadie

CHIEF FINANCIAL OFFICER

Chris is an experienced Finance Director with extensive corporate finance experience within both public and private companies in the natural resources sector.

Chris qualified as a Chartered Accountant with PricewaterhouseCoopers after which he held a number of senior finance positions at Cable and Wireless PLC.

Prior to joining Zephyr, Chris was, amongst other things, Finance Director of AIM listed Aurum Mining PLC, and was involved in the wholesale restructuring of the Company into Shearwater Group PLC, the AIM listed cybersecurity and risk management company.

Gordon Stein

NON-EXECUTIVE DIRECTOR

Gordon Stein is a commercial CFO with over 30 years of expertise in the energy, natural resources and other sectors. A member of the Chartered Institute of Public Finance & Accountancy, Gordon is currently CFO of CleanTech Lithium plc, an exploration and development company advancing the next generation of sustainable lithium projects in Chile.

Previously, Gordon was the CFO and an Executive Director of Columbus Energy Resources plc, an AIM-traded oil and gas company, CFO of AIM-traded Madagascar Oil Limited and has also been CFO of Cadogan Petroleum plc an independent oil and gas exploration, development and production company with onshore gas and condensate assets in Ukraine. Prior to that, Gordon held a number of other roles in the energy sector at start-ups to major companies.

Tom Reynolds

NON-EXECUTIVE DIRECTOR

Tom is a chartered Chemical Engineer with 25 years' experience in the energy sector spanning executive management of private and public E&P companies, private equity investment and advising early stage companies. He is currently the CEO of Scirocco Energy.

Tom led two public E&P companies between 2008-2016 – Bridge Energy ASA and Iona Energy Inc. – providing him with a broad range of North Sea experience including cross border mergers, IPOs, acquisitions & disposals, the Nordic bond market, debt restructuring and investor relations in London, Oslo and Toronto.

Senior Management

Gregor Maxwell

CHIEF OPERATING OFFICER

- PhD in Reservoir Geology, 25 years experience spanning production to new ventures roles.
- Previous roles with Apache, Rocksource and Chevron. Now responsible for spearheading ZPHR analytics and technical approach.

James Lee

FINANCE & CORPORATE DEVELOPMENT

- 21 years of energy finance experience including 17 years in natural resources investment banking, most recently as a Managing Director at Stifel.
- Co-founder of a PE backed upstream company focused on the Williston Basin.

Kaleb Dasinger

LAND AND CORPORATE DEVELOPMENT

- Second generation landman with 17 years of experience.
- Founder of multiple companies focused on oil and gas minerals and non-operated working interests.

Ryan Walter

OPERATIONS MANAGER

- Ryan holds a Bachelor of Science in Mechanical Engineering from Purdue University and has over a decade of experience in the oil and gas industry.
- Prior to Zephyr, Ryan served as a Senior Operations Engineer & Joint Interest Supervisor at Whiting Petroleum, where he supported operations in both the Williston Basin & DJ Basin.

Jorge Gutierrez

GENERAL COUNSEL

- Jorge has oversight of the Company's legal affairs.
- He previously worked for over 15 years in private practice in Dallas, Texas with an emphasis in representing private and publicly traded companies operating in the upstream and midstream sectors of the energy industry. He is admitted to practice law in the State of Texas.

Corporate Governance Statement

As a Board we have been driving our governance standards towards meeting best practice, and it has been my privilege to work with this Board which is committed to maintaining high standards of corporate governance. As Chairman of Zephyr, my role is to provide leadership, ensuring that the Board performs its role effectively and has the capacity, ability, structure, corporate governance systems and support to enable it to continue to do so.

The Group's success is directly linked to sound and effective governance and we remain committed to achieving high standards in everything we do.

The Directors recognise the importance of strong corporate governance and have developed a corporate governance framework and policies appropriate to the size of the Group. As the Group grows, the Directors and management will continue to review and adjust our approach and make ongoing improvements to the Group's corporate governance framework and policies and procedures as part of building a successful and sustainable company. Good governance creates the opportunity for appropriate decisions to be made by the right people at the right time to support the delivery of our strategy and manage any risks associated with delivery of that strategy.

Zephyr follows the requirements of the QCA Corporate Governance Code (the "Code") published by the Quoted Companies Alliance in April 2018, a full version of which is available at <http://www.theqca.com>.

All members of the Board believe strongly in the value and importance of good corporate governance and in our accountability to all of Zephyr stakeholders, including Shareholders, staff, clients, suppliers and the Governments and regulators of the countries in which we operate.

The corporate governance framework which the Group operates, including Board leadership and effectiveness, Board remuneration, and internal control is based upon practices which the Board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the Group's values.

The Board continually assesses its corporate governance processes to ensure that Zephyr continues to comply with best practice as outlined in the Code. No major corporate governance issues arose during the year under review.

The Code is constructed around ten broad principles and a set of disclosures. The Code states what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and we provide an explanation of the approach taken in relation to each principle on our website and a summary is set out below.

RL Grant
Non-Executive Chairman

The Board and its committees

The Board is responsible for the direction and overall performance of the Group with an emphasis on policy and strategy, financial results and major operational issues.

Formal Board meetings are scheduled, on average, every four to six weeks with regular contact between meetings as required. During the year there were nine formal Board meetings, in addition to regular informal Board discussions, and each of the formal meetings was attended by every Director. The meetings are held to monitor and implement strategy, to review performance (including cash forecasts, ESG compliance), potential acquisitions, fundraising activity and to consider communications to the London Stock Exchange and Shareholders.

During the year, the matters reserved for the Board's decision have been reviewed and reaffirmed. Specific matters for the Board's consideration include:

- Approval of the Group's strategic plan;
- Review of the performance of the Group's strategy, objectives, business plans and budgets;
- Review and assess the Group's sustainability and ESG goals, including the Group's carbon neutrality programme
- Approval of the Group's operating and capital expenditure budgets and any material changes to them;
- Review of material changes to the Group's corporate structure and management and control structure;
- Review of changes to governance and business policies;
- Monitoring efforts related to community and stakeholder engagement;
- Ensuring an effective system of internal control and risk management;
- Ensure that appropriate succession planning procedures are in-place;
- Approval of annual and interim reports and accounts, and preliminary announcements of year-end results; and
- Review of the effectiveness of the Board and its committees.

There is also an established procedure for all Directors to take independent professional advice, if necessary, at the Group's expense. Additionally, all Directors have access to the advice of the Group's advisers. The Group maintains Directors' and Officers' liability insurance.

The Board members are mindful of the need to keep skills and experience up to date which is done through a combination of training, continuing professional development through professional bodies, reading and on the job experience.

All Directors are expected to devote such time as is necessary for the proper performance of their duties. Directors are expected to prioritise and attend Board meetings and any additional meetings wherever possible.

Details of Directors who served during the year are set out in the Directors' Report. The Board is currently comprised of two Executive Directors and three Non-Executive Directors, one of whom acts as Chairman. There are separate roles for the Chairman and the Chief Executive Officer.

The Board has established an Audit Committee, which comprises of two Non-Executive Directors. The Audit Committee meets two or three times a year and the Group's external auditor is invited to meetings where appropriate. The main responsibilities of the Audit Committee are to review and report to the Board on matters relating to:

- The integrity of the financial statements of the Group, including its annual and interim accounts;
- The effectiveness of the Group's internal controls and risk management systems;
- The accounting policies and practices of the Group;
- Audit plans and auditor's report, including any significant concerns the external auditor may have arising from their audit work; and
- The terms of appointment, remuneration and independence of the auditor.

The Board also has an established Remuneration Committee, which comprises the Non-Executive Chairman and one Non-Executive Director. The Remuneration Committee meets at least twice a year and reviews the performance of the Executive Directors and the scale and structure of their remuneration having due regard to the interests of our Shareholders. The Committee is also responsible for awards under the Group's share option plans. No Director is involved in any decision relating to their own remuneration.

The remuneration of the Non-Executive Directors is determined by the Board.

Communication with shareholders

The Board encourages regular and transparent dialogue with the Group's Shareholders. All Shareholders are invited to the Annual General Meeting at which Directors are available for questioning. The notice of AGM is sent to all Shareholders at least 21 clear days before the meeting. The number of proxy votes received for and against each resolution is disclosed at the AGM and a separate resolution is proposed on each item. Financial and other information about the Group is available on the Group's website www.zephyrplc.com.

Internal controls

The Board is responsible for establishing the Group's system of internal controls and for reviewing its effectiveness. Reflecting the size of the Group, a key control procedure is the close day-to-day supervision of the business by the Executive Directors, supported by the senior management with responsibility for key tasks and operations.

The key procedures that have been established, and which are designed to provide effective internal control are as follows:

- Each of the Group's subsidiaries is managed by an Executive Director and there is a management reporting process in place to enable the Board to monitor the performance of the Group on a regular basis;
- Monthly cash forecasts are prepared and formally adopted by the Board;
- The Board reviews the major business risks faced by the Group and determines the appropriate course of actions required to manage those risks;
- The Board approves proposals for the acquisition of assets or new businesses and sets guidelines for the development of new properties. Capital expenditure is regulated and written proposals must be submitted to the Board for any expenditure above specified levels;
- Consolidated management information is prepared on a regular basis; and
- The Board has regular briefing from the Company's Nominated Adviser and Legal Counsel.

The Board reviews the effectiveness of the system of internal controls and the control environment. No significant control deficiencies were reported during the year and no weaknesses in internal controls have resulted in any material losses, contingencies or uncertainty which would require disclosure as recommended by the guidance for Directors on reporting on internal controls. The Board has reviewed the need for an independent internal audit function and has concluded that, at the current time, the Group is not yet large enough to warrant this.

As outlined above, the Board adopted the Code in April 2018. An overview of the extent of the Group's compliance with the ten principles that comprise the Code, are set out below.

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Establish a strategy and business model which promote long-term value for Shareholders	Fully Compliant	A summary of the Group's business model and strategy can be found in the Strategic Report within this Annual Report. Key risks and mitigating actions are detailed in the Principal risks section of the Strategic Report within this Annual Report.	Strategic Report
Seek to understand and meet Shareholder needs and expectations	Fully Compliant	The Group remains committed to listening and communicating openly with its Shareholders to ensure that its strategy, business model and performance are clearly understood. Understanding what stakeholders think about the Group, and in turn, helping these audiences understand our business, is a key part of driving our business forward and we actively seek dialogue with all stakeholders. We do so via regular reporting, investor roadshows, presenting at investor conferences/webinars and at the Group's Annual General Meeting. The Group also makes regular operational announcements to keep Shareholders and the market updated on operational activity and progress. The Group also makes available corporate presentations on the 'corporate documents' page on the 'investors' area on the Group's website. The CEO is responsible for shareholder liaison.	www.zephyrplc.com; Regulatory updates, Annual General Meeting, Investor presentations and full contact details on the Group's website.
Take into account wider stakeholder and social responsibilities and their implications for long-term success	Fully Compliant	Directors and employees adopt a broad view during decision making to take meaningful account on of the impact of the business on all key stakeholder groups. The Board recognises that Zephyr's long-term success is reliant on good relationships with its key stakeholders.	See section on Stakeholder engagement in the Strategic Report

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Embed effective risk management, considering both opportunities and threats, throughout the organisation	Fully Compliant	<p>The Board operates a comprehensive system of internal controls designed (to the extent considered appropriate) to safeguard the Group's assets and protect the business from identified risks, including reputational risk.</p> <p>As well as tight oversight exercised by the Executive Directors, and appropriately trained and qualified staff, the Board engages appropriate auditors and consultants to assist in identifying and managing risk.</p>	Principal risk section of the Strategic Report within the Annual Report.
Maintain the Board as a well-functioning, balanced team led by the Chair	Fully Compliant	<p>The Board comprises the Non-Executive Chairman, two Executive Directors and two Non-Executive Directors (both of which are considered by the Board to be independent). One of the Non-Executive Directors, GB Stein acts as the Group's Senior Independent Director.</p> <p>The Board is constantly reviewing its make up to ensure that it has a sufficient blend between independence on the one hand, and knowledge of the Group on the other, to enable it to discharge its duties and responsibilities effectively.</p> <p>All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. The Chairman holds regular update meetings with each Director to ensure they are performing as they are required. Board meetings take place, on average, every 4 to 6 weeks, normally held by telephone conference owing to the diverse geographic locations of the Board members.</p>	See Corporate Governance section of Annual Report for full details on the Board structure
Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Fully Compliant	<p>The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of exploration, development and production of oil and gas assets. All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. All Directors retire by rotation at regular intervals in accordance with the Group's Articles of Association.</p> <p>The Board makes decisions regarding the appointment and removal of Directors, and there is a formal, rigorous procedure for appointments. The Group's Articles of Association require that one-third of the Directors must stand for re-election by Shareholders annually in rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment.</p> <p>All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Group's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and Finance Director.</p>	See Corporate Governance section of Annual Report for full details on the Board structure
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Fully Compliant	<p>The Chairman continually assesses the contribution of each member of the Board to ensure that:</p> <ul style="list-style-type: none"> • Their contribution is relevant and effective • That they have a commitment to progressing the Group's objectives in order to increase Shareholder value • Where relevant, they have maintained their independence <p>Given the Group's ongoing expansion, the Board (led by the Chair) is constantly reviewing the performance and structure of the team as a unit and to ensure that the members of the Board collectively function in an efficient and productive manner.</p>	Key Performance indicators in the Strategic Report

Principle	Extent of current compliance	Commentary	Further disclosure(s)
<p>Promote a culture that is based on ethical values and behaviours</p>	<p>Fully Compliant</p>	<p>The Board aims to lead by example and do what is in the best interests of the Group.</p> <p>The Board spends a significant amount of time formulating and agreeing on the core principles and values under which Zephyr will operate. In short, Zephyr's team will always strive to be responsible stewards of its investors' capital and responsible stewards of the environment in which we work. We believe that good environmental performance, together with good governance practices, will translate into good business performance and therefore are focused on delivering strong economic returns in the most environmentally responsible manner practical.</p>	<p>Chairman's Statement, Strategic Report Corporate Governance Statement</p>
<p>Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board</p>	<p>Fully Compliant</p>	<p>The Board meets regularly for both formal Board meetings and for informal discussions.</p> <p>The Board sets direction for the Group through a schedule of matters reserved for its decision. The Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place. Any Director may challenge the Group's proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by the Group's management.</p> <p>The Executive Team consists of the Chief Executive Officer and the Financial Director with input from the other Directors. They are responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the plc Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out earlier in this document, and the effectiveness of these controls is regularly reported to the Audit Committee and the Board.</p> <p>The Board is supported by the Audit and Remuneration Committees. Each Committee has access to such resources, information and advice as it deems necessary, at the cost of the Group, to enable the committee to discharge its duties.</p> <p>The Audit Committee is Chaired by the Senior Independent Director, GB Stein. The Non-Executive Director, TH Reynolds, is the other member of the Committee.</p> <p>The Remuneration Committee is Chaired by the Senior Independent Director, TH Reynolds. The Non-Executive Chairman, RL Grant, is the other member of the Committee.</p>	<p>Corporate Governance Statement</p>

Principle	Extent of current compliance	Commentary	Further disclosure(s)
<p>Communicate how the Group is governed and is performing by maintaining a dialogue with Shareholders and other relevant stakeholders</p>	<p>Fully Compliant</p>	<p>The Group communicates with Shareholders through the Annual Report and Accounts, full-year and half-year announcements, the AGM and one-to-one meetings with large existing or potential new Shareholders. The Group also keeps Shareholders updated on progress and developments through its regular market announcements. The CEO remains a key part of encouraging Shareholder interaction and listening to feedback. A range of corporate information (including all group announcements and presentations) is also available to Shareholders, investors and the public on the Company's website; www.zephyrplc.com.</p> <p>The Board receives regular updates on the views of Shareholders through briefings and reports from the Chief Executive Officer, Finance Director and the Group's brokers. The Group communicates with institutional investors frequently through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views.</p> <p>The Group's website includes the following:</p> <ul style="list-style-type: none"> • Disclosure of any instances where a significant proportion of votes (e.g. 20% of independent votes) have been cast against a resolution at any general meeting, an explanation of what actions the Group intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote • Historical annual reports and other governance-related material, including notices of all general meetings over the last five years 	<p>www.zephyrplc.com</p>

JC Harrington

Chief Executive Officer
23 June 2023

Directors' Report

The Directors present the Annual Report and Financial Statements of the Group for the year ended 31 December 2022.

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2022 (2021: nil).

Directors

The Directors who held office during the year, and since the year end are as follows:

JC Harrington
RL Grant
TH Reynolds
GB Stein
CJ Eadie

Directors' remuneration

In late 2021 and into early 2022, Zephyr's independent Directors commissioned an independent third-party review of Executive Directors' compensation. The purpose of engaging an independent subject matter expert was to conduct a detailed review of the remuneration arrangements to ensure that they are appropriate in light of the performance of the business and our current strategy. The Remuneration Committee therefore engaged Focussed Independent Tailored Remuneration Consultants ("FIT") to advise on the Company's remuneration strategy and make any recommendations on any changes to the previous practices.

Of particular importance was the need to ensure that compensation structures are capable of delivering competitive rewards in the U.S., where the majority of Zephyr's executives and employees are based, whilst meeting the expectations of our UK investor base in terms of the design and structure of the arrangements and ensuring the interests of our Shareholders and executives are aligned.

FIT compared Zephyr's Executive Director remuneration policies with around a dozen peer group oil and gas companies (as agreed by the Remuneration Committee) in each of the UK and U.S., reviewing base salary, pensions, medical expenses, bonuses and other long term incentivisation schemes. This was then presented to the Remuneration Committee who discussed and agreed to implement various recommendations to address differences between current remuneration practices at Zephyr and the relevant peer group companies.

The key conclusions of the independent third-party review were that:

- The levels of total remuneration for the Executive Directors, specifically with respect to the CEO and CFO, were competitive with industry market peers (of the same size) in the UK, but were below the lowest quartile in talent markets in the U.S.; and
- Market base salary levels in the UK and U.S. are broadly comparable and so the key differentiator is levels of variable pay opportunity, which is higher in the U.S.

In addition to the review, the Independent Directors also noted that whilst there is no intention to match U.S. levels of remuneration for our Executive Directors, the compensation structure may prevent us from being able to attract candidates with the skills and experience necessary to continue the Group's success in the U.S. in the future. Continuing efforts will be made to ensure the remuneration of our Executive Directors remains competitive with market peers in the U.S. while meeting the expectations of our UK investor base and, if future increases in total remuneration are warranted, those increases should be primarily delivered through long-term incentive structures.

The Executive Directors also recently undertook a review of Non-Executive Director ("NED") fees in conjunction with FIT. FIT compared the fees paid at other peer group companies recognising the time incurred by Zephyr's NEDs who were involved in a significant number of Board Meetings and Board update calls, the many Merger & Acquisition ("M&A") transactions which the Board reviewed and approved in 2022, as well as the Committee Meetings required to address various matters. NED fees were therefore amended in early 2023 to reflect the findings of the study and the extra time involvement for the NEDs in carrying out their duties on the Zephyr Board.

Remuneration paid to Directors during the year was as follows:

	2022			
	Salaries ¹ taken US\$'000	Bonus US\$'000	Pension US\$'000	Total US\$'000
Executive Directors				
JC Harrington	500	207	34	741
CJ Eadie	217	93	13	323
Non-Executive Directors				
RL Grant	65	25	1	91
TH Reynolds	44	25	-	69
GB Stein	44	25	-	69
	870	375	48	1,293

¹ Salaries include benefits-in-kind

	2021			
	Salaries ¹ taken US\$'000	Bonus US\$'000	Pension US\$'000	Total US\$'000
Executive Directors				
JC Harrington	406	88	24	518
CJ Eadie	184	41	17	242
Non-Executive Directors				
RL Grant	65	-	-	65
TH Reynolds	50	-	-	50
GB Stein	50	-	-	50
	755	129	41	925

¹ Salaries include benefits-in-kind

As outlined in the Company's 2021 Annual Report and in the Interim results for the period to 30 June 2022, it remains the Company's intention to issue 31 million nil-cost options to certain Directors and employees to compensate them for salaries sacrificed during the Covid-19 pandemic. The options will be issued when the Board is permitted to do so and in line with its regulatory responsibilities. It has not been possible to issue these nil-cost options to date due to the Company's activity which has precluded transactions involving the Company's securities.

The remuneration of Directors and key executives is decided by the Remuneration Committee having regard to comparable market statistics and with support from a third-party organisation.

Directors' interests in shares and share options

The Directors who held office at 31 December 2022 had the following interests, including family interests, in the Ordinary Shares of the Company as follows:

	Number of Ordinary Shares	
	31 December 2022	1 January 2022
CJ Eadie	6,775,095	6,775,095
JC Harrington	138,590,300 ¹	138,590,300 ¹
TH Reynolds	1,000,000	1,000,000
GB Stein	2,350,000	2,350,000
RL Grant	1,500,000 ¹	1,500,000 ¹

¹ JC Harrington is indirectly the controlling shareholder of Origin Creek Energy LLC ("OCE") which was the beneficial owner of 137,136,364 shares at 31 December 2022. RL Grant is a 19% shareholder of OCE.

Directors' interests in share options of the Company, including family interests, as at 31 December 2022 were as follows:

	Date of grant	No. of shares	Exercise price	Option exercise period
CJ Eadie	13 Feb 2015	100,000	182.5p	13/03/16 to 12/03/25
CJ Eadie	24 Mar 2017	500,000	14.0p	24/04/17 to 23/04/27
CJ Eadie	6 April 2018	1,300,000	3.5p	06/04/19 to 05/04/28
CJ Eadie	29 May 2020	6,000,000	0.6p	29/05/21 to 28/05/31
JC Harrington	29 May 2020	12,000,000	0.6p	29/05/21 to 28/05/31
TH Reynolds	29 May 2020	2,000,000	0.6p	29/05/21 to 28/05/31
TH Reynolds	29 May 2020	818,181	0.1p	29/05/21 to 28/5/27
RL Grant	29 May 2020	3,000,000	0.6p	29/05/21 to 28/05/31
RL Grant	29 May 2020	1,353,363	0.1p	29/05/21 to 28/5/27
GB Stein	29 May 2020	2,000,000	0.6p	29/05/21 to 28/05/31
GB Stein	29 May 2020	545,455	0.1p	29/05/21 to 28/5/27

Third party indemnity provision for Directors

The Company currently has in place, and had for the year ended 31 December 2022, Directors and Officers liability insurance for the benefit of all Directors of the Company.

Corporate governance

Corporate governance matters are set out on pages 21 to 40.

Substantial shareholdings

Other than the Directors' interests shown above, the Company has been notified of the following substantial interests as at 23 June 2023¹:

	Number of shares	Percentage of issued share capital
Tyndall Investment Management	174,207,890	10.3%
Origin Creek Energy LLC	158,954,546	9.4%

¹as per most recent notification to the Company.

Going concern

The Directors have prepared cashflow forecasts for the Group and Parent Company for the period to 31 December 2024 based on their assessment of both the discretionary and the non-discretionary cash requirements of the Group during this period and based on a range of sensitivities and scenarios.

These cashflow forecasts include the forecast revenues from, and the operating costs of, the Group's operations, together with all committed development expenditure and cashflows related to the well control incident on the State 36-2 well. The Board has also incorporated its best current estimates on the timing of first cashflows from the six Slawson operated wells that were acquired in December 2022. The wells are currently expected to come online in autumn 2023 with first cashflows received by the Group in January 2024.

The cashflows reflect the Board's current best estimates on quantum and timings in respect of expected insurance recoveries in relation to the well control incident. While the Board expect the insurance proceeds to be received in accordance with the forecast, these proceeds have not been received at the date of this report. Should the insurance proceeds be delayed or lower than expected, the Group could require further funding to meet its commitments within the going concern assessment period.

Following detailed discussions, the Directors are confident that the Group and the Parent Company have, or will be able to secure insurance recoveries as per above, or additional funding to enable it to continue in operation for at least the next twelve months, however, the Group and Parent Company's ability to secure such proceeds or funding cannot be guaranteed, which leads to material uncertainty which may cast significant doubt over the Group and Parent Company's ability to continue as a going concern, and that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have extensive experience in raising capital for projects and ventures and remain confident in the Group's ability to raise the capital needed to maintain and deliver on its commitments and continue as a going concern.

The Directors continue to adopt the going concern basis in preparing the consolidated financial statements. The financial statements do not include any adjustments that would be required should the going concern basis of preparation no longer be appropriate.

Post balance sheet events

Events after the balance sheet date have been disclosed in note 31 to the financial statements.

Financial instruments

During the year the Company and its subsidiary undertakings applied financial risk management policies as disclosed in note 29 to the financial statements.

Disclosure of information to the auditor

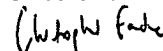
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

BDO LLP served as the Group's external auditor throughout the year under review.

The Directors resolved that BDO LLP be re-appointed as auditor. BDO LLP has indicated its willingness to continue in office.

On behalf of the Board,



CJ Eadie

Finance Director
23 June 2023

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report and the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and company financial statements for each financial year. The Directors have elected under company law and the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and have elected under company law to prepare the Company financial statements in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and applicable law.

The Group and the Company financial statements are required by law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- a. Select suitable accounting policies and then apply them consistently;
- b. Make judgements and accounting estimates that are reasonable and prudent;
- c. State whether they have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- d. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Zephyr Energy plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Zephyr Energy plc

Opinion on the financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- The Parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Zephyr Energy plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet, the Company Statement of Changes in Equity, the Company Cash Flow Statement and the Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw your attention to note 3 of the financial statements, which explains that the Parent Company's and Group's ability to continue as a going concern is dependent on securing forecast insurance recoveries relating to the well control incident or raising additional funding in order to meet its expected liabilities and commitments as they fall due. These events or conditions, along with other matters as set out in note 3 indicate that a material uncertainty exists, which may cast significant doubt over the Group's and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We have determined going concern to be a key audit matter as a result of the judgements and estimates made by the Directors and significance of this area.

Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting and our response to this key audit matter is set out below:

- Obtaining and evaluating the Board papers assessing going concern and viability for the forecast period, the assessment of risks and uncertainties and the supporting cashflow forecasts prepared by Directors. We formed our own assessment of risks and uncertainties based on our understanding of the business and oil and gas sector;
- Performing a detailed review of the cashflow forecasts prepared by Directors and assessing the appropriateness of the period over which going concern is being assessed;

- Assessing Directors' base case cashflow forecast and the underlying key assumptions which have been approved by the Board and the mathematical accuracy of such. In doing so, we considered metrics affecting the future cashflows, such as operating costs, production, forecast oil prices and capital expenditure commitments approved by the Board against actual performance for the year 2022 and the forecasts presented in the CPR both for the assets of the Group as of year-end as well as the CPR for the Williston Basin fields acquired in February 2022;
- Obtaining supporting documents for the funding secured subsequent to year end;
- Assessing the accuracy of debt repayment schedule against the underlying loan agreement and amortisation schedules;
- Agreeing the recent available cash position to bank statements;
- Obtaining and reviewing the sensitivity analysis reflecting adverse scenarios by applying a lower than forecast oil price or lower than forecast production;
- Reviewing correspondence regarding insurance related to the well 36-2 incident taking place after the reporting date to validate the existence of the insurance arrangement and obtaining the evidence of claim submitted to date;
- Reviewing post year end press releases, RNS announcements and board minutes for any indicators of obligations or significant adverse issues; and
- Reviewing and evaluating the adequacy and completeness of disclosures in the financial statements in respect of going concern based on the evidence obtained through the procedures as per above.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage¹	100% of Group profit before tax 100% of Group revenue 100% of Group total assets		
Key audit matters		2022	2021
	Carrying value of oil and gas properties	✓	✓
	Going concern	✓	✓

¹ These are areas which have been subject to a full scope audit by the group engagement team.

Materiality	Group financial statements as a whole
	US\$1.5 million based on 1.5% of total assets as at year end (2021: US\$0.6 million based on 1.5% of total assets)

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Identification of significant components

The Group's exploration and producing assets are based in the states of North Dakota and Montana, U.S. Our Group audit scope focused on the Group's producing and exploration assets to gain sufficient coverage over the Group's total assets, total revenue and profit before tax while considering the audit risks identified.

As a result, we determined two significant components which were subjected to a full scope audit by the Group audit team: Zephyr Energy plc and the US based subsidiary Rose Petroleum (US) LLC.

The financial information of the remaining non-significant components was principally subject to analytical review procedures performed by the Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section of our report, we determined the matter below to be a key audit matter.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Carrying value of oil and gas properties Refer to notes 3 and 16.</p>	<p>The oil and gas development and producing assets form a significant part of the Group's statement of financial position. Management is required to consider if there are any facts or circumstances (potential impairment indicators) that would suggest that the oil and gas producing properties would be impaired in accordance with IAS 36, "Impairment of assets". Where indicators of impairment are identified, impairment testing is required to ensure that the Group's assets are carried at no more than their recoverable amount. Following their assessment, management have not identified any impairment indicators on its oil and gas properties.</p> <p>Our audit procedures in this regard included:</p> <ul style="list-style-type: none"> • Reviewing and assessing management's allocation of assets to the cash generating unit ("CGU") for the purpose of the impairment indicators assessment; • Examining management's assessment of impairment indicators against the requirements of the applicable accounting standards. • Assessing performance since acquisition in the financial year 2022 for the oil and gas properties, included in the CGU by reviewing the production volumes, operating and transportation costs against the forecasts prepared as part of CPR. • Performing a review of management's economic model assumptions, challenging the appropriateness of estimates with reference to historical data and external evidence where available and assessing the related key estimates for potential management bias.. • Checking the consistency of the reserves and related future cashflows with the economic forecasts as per the latest CPR and assessing whether the discounted cashflow forecast as per the CPR is consistent with the management's impairment indicators assessment. • Assessing the management's experts preparing the CPR on the oil and gas reserves, particularly focused on the competency of the expert and the scope of their work to check the CPR was prepared under the required guidelines and is appropriate for its intended purpose.
	<p>Key observations</p> <p>Based on procedures performed we found the judgements and estimates applied by management in assessing the oil and gas properties for indicators of impairment were appropriate and that their conclusion that there was no impairment as of 31 December 2022 to be reasonable.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

	Group financial statements		Parent Company financial statements	
	2022 US\$ million	2021 US\$ million	2022 US\$ million	2021 US\$ million
Materiality	1.5	0.6	0.8	0.4
Basis for determining materiality	1.5% of total assets	1.5% of total assets	1.8% of total assets	1.1% of total assets
Rationale for the benchmark applied	Given the asset-based focus of the business with its significant exploration asset base we considered it appropriate to adopt a total assets-based measure of materiality.	Given the asset-based focus of the business with its significant exploration asset base we considered it appropriate to adopt a total assets-based measure of materiality.	Given the asset-based focus of the business as a holding company we considered it appropriate to adopt a total assets-based measure of materiality.	Given the asset-based focus of the business as a holding company we considered it appropriate to adopt a total assets-based measure of materiality.
Performance materiality	0.7	0.45	0.6	0.3
Basis for determining performance materiality	70% of materiality (2021: 65%). Performance materiality was set at 70% based on consideration of factors including the level of historical errors and nature of activities.			

Component materiality

Component materiality for the U.S. based component Rose Petroleum (US) LLC, which represented the only component other than the Parent Company, was set at US\$1.3 million (2021: US\$0.47 million) based on 1.5% of the component's total assets. In the audit of the component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US\$30,000 (2021: US\$12,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic Report and Directors' Report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.
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In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatement in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or the Parent Company financial statements are not in agreement with the accounting records and returns; or certain disclosures of Directors' remuneration specified by law are not made; or we have not received all the information and explanations we require for our audit.
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Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group. We determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting framework (UK-adopted international accounting standards, the Companies Act 2006, the AIM rules and the QCA Corporate Governance Code), local taxation legislation in the countries where the Group operates, and the terms and requirements included in the Group's operating and exploration licences.

Our procedures included the following:

- We gained an understanding of how the Group is complying with those legal and regulatory frameworks by making inquiries of management, and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes and other supporting documentation; and
- We reviewed the financial statement disclosures and tested to supporting documentation to assess compliance with relevant laws and regulations noted above.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk area to be management override of controls and revenue recognition.

Our procedures included:

- Holding discussions with the audit engagement team as to how and where fraud might occur in the financial statements and where any potential indicators of fraud may arise in the Group in order to consider how our audit strategy should reflect our considerations;
- Testing the appropriateness of journal entries made throughout the year, to supporting documentation, by applying specific criteria to detect possible irregularities or fraud;
- In addition to the key audit matters as per above we assessed and challenged key areas of judgement and estimation made by management to identify potential management's bias, including:
 - i) Management's assumptions and key estimates related to decommissioning liabilities;
 - ii) Assumptions and key estimates related to determining fair value of net assets acquired ("Kaiser acquisition") in February 2022.
- Agreeing revenue to supporting documentation of monthly operators' revenue statements/joint interest billings to confirm volume and pricing, together with evidence regarding the receipt of cash;
- Performing cut-off testing on revenue around the year-end to ensure that revenue is recognised in the correct period. This included obtaining revenue statements from the operator post year-end and verifying the related revenue was recorded in the correct period;
- Inquiring of management and the Audit Committee of known or suspected instances of fraud, potential litigation and claims. We read minutes of meetings of those charged with governance, and reviewed correspondence with local tax and regulatory authorities;
- Obtaining an understanding of the design and implementation of relevant controls surrounding the financial reporting close process such as controls over the posting of journals and the consolidation process and obtained an understanding of the segregation of duties in these processes; and

- Communicating relevant identified laws and regulations and identified fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jack Draycott (Senior Statutory Auditor)

For and on behalf of BDO LLP
Statutory Auditor London
United Kingdom
23 June 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial Statements

Consolidated Income Statement

For the year ended 31 December 2022

	Notes	2022 US\$'000	2021 US\$'000
Revenue	6	41,062	6,005
Operating and transportation expenses		(4,458)	(396)
Production taxes		(3,318)	(543)
Depreciation, depletion and amortisation		(12,666)	(1,755)
Gains on derivative contracts	16	1,781	-
Gross profit		22,401	3,311
Administrative expenses		(4,834)	(2,687)
Share-based payments		(210)	(93)
Foreign exchange gains	8	6,102	461
Finance income		3	-
Finance costs	7	(2,236)	(144)
Profit on ordinary activities before taxation	8	21,226	848
Taxation charge	11	(1,955)	-
Profit for the year attributable to owners of the parent company		19,271	848
Profit per Ordinary Share			
Basic, cents per share	12	1.26	0.08
Diluted, cents per share	12	1.18	0.07

The notes on pages 50 to 82 form part of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	2022 US\$'000	2021 US\$'000
Profit for the year attributable to owners of the parent company	19,271	848
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Foreign currency translation differences on foreign operations	(6,205)	(554)
Total comprehensive profit for the year attributable to owners of the parent company	13,066	294

The notes on pages 50 to 82 form part of the financial statements.

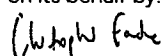
Consolidated Balance Sheet

As at 31 December 2022

Company No 04573663

	Notes	2022 US\$'000	2021 US\$'000
Non-current assets			
Exploration and evaluation assets	13	37,986	22,773
Property, plant and equipment	14	51,805	11,156
Derivative contracts	16	175	-
		89,966	33,929
Current assets			
Trade and other receivables	18	4,290	1,263
Prepayments and deposits	19	347	3,573
Cash and cash equivalents	20	8,996	1,811
Derivative contracts	16	1,133	-
		14,766	6,647
Total assets		104,732	40,576
Current liabilities			
Trade and other payables	21	(12,520)	(5,414)
Borrowings	22	(14,572)	(4,060)
		(27,092)	(9,474)
Non-current liabilities			
Borrowings	22	(10,821)	-
Deferred tax	23	(1,955)	-
Provisions	24	(4,138)	(508)
		(16,914)	(508)
Total liabilities		(44,006)	(9,982)
Net assets		60,726	30,594
Equity			
Share capital	25	42,412	42,065
Share premium account	27	66,847	52,875
Shares to be issued	27	539	-
Warrant reserve	26	1,557	89
Share-based payment reserve	27	3,284	3,065
Cumulative translation reserve	27	(15,984)	(9,779)
Retained deficit	27	(37,929)	(57,721)
Equity attributable to owners of the parent company		60,726	30,594

The financial statements on pages 42 to 49 were approved by the Directors and authorised for issue on 23 June 2023 and are signed on its behalf by:



CJ Eadie
Finance Director

The notes on pages 50 to 82 form part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital US\$'000	Share premium account US\$'000	Shares to be issued US\$'000	Warrant reserve US\$'000	Share-based payment reserve US\$'000	Cumulative translation reserve US\$'000	Retained deficit US\$'000	Total US\$'000
As at 1 January 2021	41,221	39,638	-	227	3,762	(9,225)	(60,085)	15,538
<i>Transactions with owners in their capacity as owners:</i>								
Issue of equity shares	816	14,679	-	-	-	-	-	15,495
Expenses of issue of equity shares	-	(1,442)	-	-	616	-	-	(826)
Transfer to retained deficit in respect of exercised warrants	-	-	-	(138)	(629)	-	767	-
Share-based payments	28	-	-	-	65	-	-	93
Transfer to retained deficit in respect of expired options	-	-	-	-	(749)	-	749	-
Total transactions with owners in their capacity as owner	844	13,237	-	(138)	(697)	-	1,516	14,762
Profit for the year	-	-	-	-	-	-	848	848
<i>Other comprehensive income:</i>								
Currency translation differences	-	-	-	-	-	(554)	-	(554)
Total other comprehensive income for the year	-	-	-	-	-	(554)	-	(554)
Total comprehensive income for the year	-	-	-	-	-	(554)	848	294
As at 31 December 2021	42,065	52,875	-	89	3,065	(9,779)	(57,721)	30,594
<i>Transactions with owners in their capacity as owners:</i>								
Issue of equity shares	347	17,023	-	-	-	-	-	17,370
Exercise of warrants	-	-	539	(122)	-	-	122	539
Expenses of issue of equity shares	-	(1,461)	-	-	408	-	-	(1,053)
Warrant exercise extension	-	(33)	-	33	-	-	-	-
Grant of warrants	-	(1,557)	-	1,557	-	-	-	-
Share-based payments	-	-	-	-	210	-	-	210
Transfer to retained deficit in respect of lapsed options	-	-	-	-	(387)	-	387	-
Transfer to retained deficit in respect of expired warrants	-	-	-	-	(12)	-	12	-
Total transactions with owners in their capacity as owner	347	13,972	539	1,468	219	-	521	17,066
Profit for the year	-	-	-	-	-	-	19,271	19,271
<i>Other comprehensive income:</i>								
Currency translation differences	-	-	-	-	-	(6,205)	-	(6,205)
Total other comprehensive income for the year	-	-	-	-	-	(6,205)	-	(6,205)
Total comprehensive income for the year	-	-	-	-	-	(6,205)	19,271	13,066
As at 31 December 2022	42,412	66,847	539	1,557	3,284	(15,984)	(37,929)	60,726

The notes on pages 50 to 82 form part of the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2022

	2022 US\$'000	2021 US\$'000
Operating activities		
Profit for the year from continuing operations	21,226	848
Adjustments for:		
Finance income	(3)	-
Finance costs	2,236	144
Unrealised gain on derivative contracts	(1,308)	-
Depreciation and depletion of property, plant and equipment	12,668	1,778
Share-based payments	210	93
Unrealised foreign exchange gain	(5,672)	(451)
Operating cash inflow before movements in working capital	29,357	2,412
Increase in trade and other receivables	(3,028)	(1,079)
Decrease/(increase) in prepayments and deposits	178	(572)
Increase in trade and other payables	723	172
Cash generated from operations	27,230	933
Income tax paid	-	-
Net cash generated from operating activities	27,230	933
Investing activities		
Additions to exploration and evaluations assets	(13,297)	(9,083)
Business combination	(37,880)	-
Acquisition of oil and gas properties	(3,362)	(5,443)
Additions to oil and gas properties	(10,482)	(7,031)
Deposits paid	-	(3,000)
Increase in capital expenditures related payables	9,300	2,773
Additions to plant and machinery	-	(4)
Grant funds received	-	290
Interest received	3	-
Net cash used in investing activities	(55,718)	(21,498)
Financing activities		
Net proceeds from issue of shares	16,317	14,669
Exercise of warrants	539	-
Repayment of lease liabilities	-	(8)
Proceeds from borrowings	30,500	4,060
Repayment of borrowings	(8,931)	-
Interest and fees paid on borrowings	(2,218)	(124)
Increase in prepayments and deposits	-	(50)
Net cash generated from financing activities	36,207	18,547
Net increase/ (decrease) in cash and cash equivalents	7,719	(2,018)
Cash and cash equivalents at beginning of year	1,811	3,940
Effect of foreign exchange rate changes	(534)	(111)
Cash and cash equivalents at end of year	8,996	1,811

The notes on pages 50 to 82 form part of the financial statements.

Company Balance Sheet

As at 31 December 2022

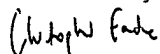
Company No 04573663

	Notes	2022 US\$'000	2021 US\$'000
Non-current assets			
Investments	17	43,850	35,063
Property, plant and equipment	14	6	9
		43,856	35,072
Current assets			
Trade and other receivables	18	41	33
Prepayments and deposits	19	41	31
Cash and cash equivalents	20	118	1,574
		200	1,638
Total assets		44,056	36,710
Current liabilities			
Trade and other payables	21	(459)	(457)
Borrowings	22	-	(4,060)
		(459)	(4,517)
Total liabilities		(459)	(4,517)
Net assets		43,597	32,193
Equity			
Share capital	25	42,412	42,065
Share premium account	27	66,847	52,875
Shares to be issued	27	539	-
Warrant reserve	26	1,557	89
Share-based payment reserve	27	3,284	3,065
Cumulative translation reserve	27	(13,427)	(8,247)
Retained deficit	27	(57,615)	(57,654)
Total equity		43,597	32,193

As permitted by section 408 of the Companies Act 2006, the Parent Company's Income Statement and Statement of Comprehensive Income have not been included in these financial statements.

The loss for the Company for the year ended 31 December 2022 is US\$0.5 million (2021: US\$1 million).

The financial statements on pages 42 to 49 were approved by the Directors and authorised for issue on 23 June 2023 and are signed on its behalf by:



CJ Eadie
Finance Director

The notes on pages 50 to 82 form part of the financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital US\$'000	Share premium account US\$'000	Shares to be issued US\$'000	Warrant reserve US\$'000	Share-based payment reserve US\$'000	Cumulative translation reserve US\$'000	Retained deficit US\$'000	Total US\$'000
As at 1 January 2021	41,221	39,638	-	227	3,762	(7,743)	(58,198)	18,907
<i>Transactions with owners in their capacity as owners:</i>								
Issue of equity shares	816	14,679	-	-	-	-	-	15,495
Expenses of issue of equity shares	-	(1,442)	-	-	616	-	-	(826)
Transfer to retained deficit in respect of exercised warrants	-	-	-	(138)	(629)	-	767	-
Share-based payments	28	-	-	-	65	-	-	93
Transfer to retained deficit in respect of expired options	-	-	-	-	(749)	-	749	-
Total transactions with owners in their capacity as owner	844	13,237	-	(138)	(697)	-	1,516	14,762
Loss for the year	-	-	-	-	-	-	(972)	(972)
<i>Other comprehensive income:</i>								
Currency translation differences	-	-	-	-	-	(504)	-	(504)
Total other comprehensive income for the year	-	-	-	-	-	(504)	-	(504)
Total comprehensive income for the year	-	-	-	-	-	(504)	(972)	(1,476)
As at 31 December 2021	42,065	52,875	-	89	3,065	(8,247)	(57,654)	32,193
<i>Transactions with owners in their capacity as owners:</i>								
Issue of equity shares	347	17,023	-	-	-	-	-	17,370
Exercise of warrants	-	-	539	(122)	-	-	122	539
Expenses of issue of equity shares	-	(1,461)	-	-	408	-	-	(1,053)
Warrant exercise extension	-	(33)	-	33	-	-	-	-
Grant of warrants	-	(1,557)	-	1,557	-	-	-	-
Share-based payments	-	-	-	-	210	-	-	210
Transfer to retained deficit in respect of lapsed options	-	-	-	-	(387)	-	387	-
Transfer to retained deficit in respect of expired warrants	-	-	-	-	(12)	-	12	-
Total transactions with owners in their capacity as owner	347	13,972	539	1,468	219	-	521	17,066
Loss for the year	-	-	-	-	-	-	(482)	(482)
<i>Other comprehensive income:</i>								
Currency translation differences	-	-	-	-	-	(5,180)	-	(5,180)
Total other comprehensive income for the year	-	-	-	-	-	(5,180)	-	(5,180)
Total comprehensive income for the year	-	-	-	-	-	(5,180)	(482)	(5,662)
As at 31 December 2022	42,412	66,847	539	1,557	3,284	(13,427)	(57,615)	43,597

The notes on pages 50 to 82 form part of the financial statements.

Company Cash Flow Statement

For the year ended 31 December 2022

	2022 US\$'000	2021 US\$'000
Operating activities		
Loss before taxation	(482)	(972)
Adjustments for:		
Finance income	(1,215)	(370)
Finance costs	272	137
Depreciation of property, plant and equipment	2	23
Share-based payments	210	93
Unrealised foreign exchange	(1,407)	(332)
Operating cash outflow before movements in working capital	(2,620)	(1,421)
Increase in trade and other receivables	(8)	(11)
Increase in prepayments	(9)	(18)
Increase in trade and other payables	16	128
Net cash used in operating activities	(2,621)	(1,322)
Investing activities		
Loans to subsidiary undertakings	(11,330)	(17,930)
Purchase of property, plant and equipment	-	(4)
Net cash used in investing activities	(11,330)	(17,934)
Financing activities		
Net proceeds from the issue of shares	16,317	14,669
Proceeds from exercise of warrant	539	-
Repayment of lease liabilities	-	(8)
Proceeds from borrowings	-	4,060
Repayment of borrowings	(4,060)	-
Interest paid on borrowings	(287)	(124)
Net cash generated from financing activities	12,509	18,597
Net decrease in cash and cash equivalents	(1,442)	(659)
Cash and cash equivalents at beginning of year	1,574	2,245
Effect of foreign exchange rate changes	(14)	(12)
Cash and cash equivalents at end of year	118	1,574

The notes on pages 50 to 82 form part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2022

1. Corporate information

Zephyr Energy plc (the "Company" and, together with its subsidiaries, the "Group") is a public company limited by shares, domiciled and incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 20-22 Wenlock Road, London, N1 7GU.

The Company's Ordinary Shares are approved to trade on the OTCQB Venture Market ("OTCQB") in the U.S. under the ticker ZPHRF. The ability to trade in the Company's Ordinary Shares on AIM is not affected by the OTCQB facility.

Zephyr Energy plc is a technology-led Evaluation & Production ("E&P") company focused on the delivery of superior economic returns through responsible resource development from its carbon-neutral portfolio of operated and non-operated assets in the Rocky Mountain region of the U.S.

2. Adoption of new and revised standards

Standards adopted during the year

The Group has adopted all of the new or amended Accounting Standards and interpretations issued by the International Accounting Standards Board ("IASB") that are mandatory and relevant to the Group's activities for the current reporting period.

The following new and revised Standards have been adopted but have not had any material impact on the amounts reported in these financial statements:

- Amendments to IAS 16 – *Property, plant and equipment – proceeds before intended use*
- Annual improvements to IFRS standards 2018-2020
- Amendments to IFRS 3 – *Reference to the conceptual framework*
- Amendments to IAS 37 – *Onerous contracts – cost of fulfilling a contract*

Standards issued but not yet effective

Any new or amended Accounting Standards or interpretations that are not yet mandatory (and in some cases, had not yet been endorsed by the UK Endorsement Board) have not been early adopted by the Group for the year ended 31 December 2022. They are as follows:

- Amendments to IAS 1 – *Classification of liabilities as current or non-current*
- Amendments to IFRS 17 – *Insurance contracts*
- Amendments to IFRS 17 – *Initial application of IFRS 17 and IFRS 9 – comparative information*
- Amendments to IAS 12 – *Deferred tax related assets and liabilities arising from a single transaction*
- Amendments to IAS 1 and IFRS practice statement 2 – *Disclosure of accounting policies*
- Amendments to IAS 8 – *Definition of accounting estimates*
- Amendments to IFRS 16 – *Lease liability in a sale and leaseback*
- Amendments to IAS 1 – *Non-current liabilities with covenants*

The Directors do not expect that the adoption of these Standards or Interpretations in future periods will have a material impact on the financial statements of the Company or the Group.

3. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared on the historical cost basis, other than certain financial assets and liabilities, which are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial statements are presented in United States dollars ("US\$"). All amounts have been rounded to the nearest thousand, unless otherwise indicated.

As described below, the Directors continue to adopt the going concern basis in preparing the consolidated and the Company financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The preparation of the financial statements in compliance with UK-adopted international accounting standards requires management to make estimates and exercise judgement in applying the Group's accounting policies. The significant judgments made by the Directors in the application of these accounting policies that have significant impact on the financial statements and the key sources of estimation uncertainty are disclosed in note 4.

3. Significant accounting policies *continued*

Going concern

The Directors have prepared cashflow forecasts for the Group and Parent Company for the period to 31 December 2024 based on their assessment of both the discretionary and the non-discretionary cash requirements of the Group during this period and based on a range of sensitivities and scenarios.

These cashflow forecasts include the forecast revenues from, and the operating costs of, the Group's operations, together with all committed development expenditure and cashflows related to the well control incident on the State 36-2 well. The Board has also incorporated its best current estimates on the timing of first cashflows from the six Slawson operated wells that were acquired in December 2022. The wells are currently expected to come online in autumn 2023 with first cashflows received by the Group in January 2024.

The cashflows reflect the Board's current best estimates on quantum and timings in respect of expected insurance recoveries in relation to the well control incident. While the Board expects the insurance proceeds to be received in accordance with the forecast, these proceeds have not been received at the date of this report. Should the insurance proceeds be delayed or lower than expected, the Group could require further funding to meet its commitments within the going concern assessment period.

Following detailed discussions, the Directors are confident that the Group and the Parent Company have, or will be able to secure insurance recoveries as per above, or additional funding to enable it to continue in operation for at least the next twelve months, however, the Group and Parent Company's ability to secure such proceeds or funding cannot be guaranteed, which leads to material uncertainty which may cast significant doubt over the Group and Parent Company's ability to continue as a going concern, and that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have extensive experience in raising capital for projects and ventures and remain confident in the Group's ability to raise the capital needed to maintain and deliver on its commitments and continue as a going concern, and that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors continue to adopt the going concern basis in preparing the consolidated financial statements. The financial statements do not include any adjustments that would be required should the going concern basis of preparation no longer be appropriate.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings (together, "the Group") made up to 31 December each year.

Subsidiary undertakings are those entities controlled directly or indirectly by the Company. Control is achieved when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the date on which control is transferred to the Group or, up to the date that control ceases, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group.

The Group applies the acquisition method to account for business combinations. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and asset acquisitions

In accordance with the requirements of IFRS 3 *Business combinations*, the Group performs an assessment of each acquisition to determine whether the acquisition should be accounted for as an asset acquisition or a business combination. For each transaction, the Group may elect to apply the concentration test as permitted by the amendment to IFRS 3 to determine if the fair value of assets acquired is substantially concentrated in a single asset (or a group of similar assets). If this concentration test is met, the acquisition qualifies as an acquisition of a group of assets and liabilities, and not of a business.

The requirements of IFRS 3 are applied once it is determined that a business has been acquired. Under IFRS 3, a business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues.

When less than the entire interest of an entity is acquired, the choice of measurement of the non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis.

Investments in subsidiary undertakings

Long-term investments representing interests in subsidiary undertakings are stated at cost less any provision for impairment in the value of the non-current investment.

3. Significant accounting policies continued

Exploration and evaluation assets

The Group applies the full cost method of accounting for Exploration and Evaluation ("E&E") costs, having regard to the requirements of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Under the full cost method of accounting, costs of exploring for and evaluating mineral resources are accumulated by reference to appropriate cost centres being the appropriate licence area but are tested for impairment on a cost pool basis as described below.

E&E assets comprise costs of (i) E&E activities that are ongoing at the balance sheet date, pending determination of whether or not commercial reserves exist and (ii) costs of E&E that, whilst representing part of the E&E activities associated with adding to the commercial reserves of an established cost pool, did not result in the discovery of commercial reserves.

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as they are incurred.

All costs of E&E are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as intangible E&E assets.

Intangible costs include directly attributable overheads together with the cost of other materials consumed during the exploration and evaluation phases.

Treatment of E&E assets at conclusion of appraisal activities

Intangible E&E assets related to each exploration licence/project are carried forward until the existence (or otherwise) of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E asset are assessed for impairment on a cost pool basis as set out below and any impairment is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified as development and production assets.

Intangible E&E assets that related to E&E activities that are determined not to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost, subject to meeting a pool-wide impairment test in accordance with the accounting policy for impairment of E&E assets set out below.

Impairment of exploration and evaluation assets

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include, but are not limited to, those situations outlined in paragraph 20 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* and include the point at which a determination is made as to whether or not commercial reserves exist.

Where there are indications of impairment, the E&E assets concerned are tested for impairment. Where the E&E assets concerned fall within the scope of an established full cost pool, the E&E assets are tested for impairment together with all development and production assets associated with that cost pool, as a single cash generating unit.

The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cashflow expected to be derived from production of commercial reserves. Where the E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full.

If the recoverable amount of a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

The Group considers each area of oil and gas exploration, on a geographical basis to be a separate cost pool and therefore aggregates all specific assets for the purposes of determining whether impairment of E&E assets has occurred.

Grant income

Government grants are recognised only when there is a reasonable assurance that the Group will comply with any conditions attached to the grant, and that the grant will be received.

Claims under government grant programmes related to income are deducted in reporting the related expense. If the grants are specific to exploration projects, the Group records grants receivable by deducting the funds received from the carrying value of the Group's exploration and evaluation assets.

Property, plant and equipment

Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depreciation and any accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, and the initial estimate of the asset retirement obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any consideration given to acquire the asset.

3. Significant accounting policies *continued*

Production and development assets are depleted using the unit-of-production method based on production for the period divided by the Group's estimated total proved and probable reserve volumes (before royalties) of the geographic region concerned.

Production and reserves volumes for natural gas are converted at the energy equivalent of six thousand cubic feet of natural gas to one barrel of oil. Estimates of future development costs for developing the proved and probable reserves are included in the depletion base.

Plant and machinery and right-of-use assets

Plant and machinery and right-of-use assets are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset into use.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives at the following rates:

Plant and machinery	straight-line over 5 years
	straight-line over the shorter of the lease term and the useful life of the underlying asset
Right-of-use assets	underlying asset

The estimated useful lives, residual value and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of property, plant and equipment

In accordance with the requirements of IAS 16 *Impairment of assets* at each reporting date, the Directors assess whether indications exist that the carrying value of an asset may be impaired. If there are indicators of impairment the Directors estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's, fair value less costs to sell and its value-in-use, and is determined on a portfolio basis, based on geographical location.

Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the Directors consider the asset impaired and writes it down to its recoverable amount. In assessing value-in-use, the Directors discount the estimated future cashflows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, the Directors consider recent market transactions, if available. If no such transactions can be identified, the Directors will utilise an appropriate valuation model.

Joint arrangements

The Company is party to a joint arrangement when there is a contractual agreement that sets out the terms of the relationship over the relevant activities of the Company and at least one other party.

Management has a legal degree of control over these joint operating arrangements through Joint Operating Agreements.

The Company classifies its interests in joint arrangements as joint operations where the Company has both the right to assets and obligations for the liabilities of the joint arrangement. It accounts for its interests in joint operations by recognising its

The Company accounts for its own assets, liabilities and cashflows measured in accordance with the terms of the Joint Operating agreement and the accounting treatment reflects the agreement's commercial effect.

Where the percentage ownership in joint arrangements changes during a reporting period, the arrangement is reassessed to ensure it is still appropriately classified, and the Company's share of income and expenses is adjusted prospectively from the date of change.

Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position are expressed in United States dollar, which is the presentation currency for both company and consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency of each group company ("foreign currencies") are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into the functional currency at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences are recognised in the profit or loss in the period in which they arise, except for foreign exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur and which, therefore, form part of the net investment in the foreign operation. Foreign exchange differences arising on the translation of the Group's net investment in foreign operations are recognised as a separate component of Shareholders' equity via the statement of other comprehensive income. On disposal of foreign operations and foreign entities, the cumulative translation differences are recognised in the income statement as part of the gain or loss on disposal.

3. Significant accounting policies continued

For the purpose of presenting company and consolidated financial statements, the assets and liabilities of the Company, and the Group's subsidiaries, which have a functional currency other than United States dollar, are translated using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Foreign exchange differences arising are recognised in other comprehensive income and accumulated in equity. Equity items are translated at the exchange rates at the date of transactions and foreign exchange differences arising are accumulated directly in equity.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation or loss of joint control over a jointly controlled entity that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Where there is no change in the proportionate percentage interest in an entity then there has been no disposal or partial disposal and accumulated exchange differences attributable to the Group are not reclassified to profit or loss.

Fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Retirement benefits

The Group makes contributions to the personal pension schemes for some of its employees and Directors. Payments to these schemes are charged as an expense in the income statement in respect of pension costs payable in the year.

Taxation

The tax expense represents the sum of the tax currently payable for the year and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted at the reporting date.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. Significant accounting policies continued

Investments and other financial instruments

Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss.

Investments and other financial assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cashflow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial liabilities are subsequently measured at either amortised cost or fair value.

Fair value measurement

Assets and liabilities recognised at fair value through the income statement are measured at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value is based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risk inherent in valuation techniques and the inputs to valuations. Fair value measurements are classified and disclosed in one of the following categories:

Level 1: Fair value is based on actively quoted market prices, if available.

Level 2: In the absence of actively quoted market prices, the Group seeks price information from external sources including broker quotes and industry publications. Substantially all of these inputs are observable in the market place during the entire term of the instrument, can be derived from observable data, or supported by observable levels at which transactions are executed in the market place.

Level 3: If valuations require inputs that are both significant to be fair value measurement and less observable from objective sources, we must estimate prices based on available historical and near-term future price information and certain statistical methods that reflect the Group's market assumptions.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to cashflows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for the amount it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset and financial liability a gain or loss is recognised in profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are measured at amortised cost. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

Trade and other receivables and trade and other deposits

Trade and other receivables and trade and other deposits are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

The Group has applied the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables are grouped on the basis of days overdue.

Cash and cash equivalents

Cash and cash equivalents comprise cash-in-hand and on-demand deposits.

Derivative contracts

The Group uses forward commodity contracts to hedge its commodity price risks. The Group has not applied hedge accounting and as a result, such derivative contracts are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivative contracts are presented as financial assets when the fair value is positive and as financial liability when the fair value is negative. Net changes in fair value are recognised in profit or loss.

Trade and other payables

Trade and other payables are initially measured at their fair value, and are subsequently measured at amortised cost using the effective interest rate method.

3. Significant accounting policies continued

Borrowings

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method, if applicable.

Amortised cost is calculated by taking into account any fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the income statement.

Interest on borrowing is accrued as applicable to each class of borrowing.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

The costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided.

Warrants

Warrants issued are classified within Shareholders' equity and are valued at fair value on issuance. The Group uses the Black-Scholes model to estimate fair value. Upon exercise, the consideration received is recorded as an increase in share capital.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is presented as a separate line in the balance sheet and is subsequently measured by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the period of the lease term and the useful life of the underlying asset.

The right-of-use assets are presented within property, plant and equipment in the consolidated and company Balance Sheet.

The Group applies IAS 36 *Impairment of assets* to determine whether a right-of-use asset is impaired.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic resources will result and that outflow can be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cashflow estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

Decommissioning

Where a liability for the retirement of a well, removal of production equipment and site restoration at the end of the production life of a well exists, the Group recognises a liability for asset retirement. Provision for asset retirement is recognised in full when the related assets are installed or acquired, and are then reassessed at the end of each reporting period.

The provision recognised is calculated as the net present value of the Group's share of the expenditure expected to be incurred at the end of the life of the asset. The cost of recognising the decommissioning provision is included as part of the cost of the relevant asset and is, therefore, charged to the income statement in accordance with the Group's policy for depreciation of property, plant and equipment or for impairment of exploration and evaluation assets, depending upon the stage of the assets at the time of retirement.

The unwinding of the discount on the decommissioning liability is included as accretion of the provision and is presented in finance costs in the income statement.

The Group recognises changes in estimates prospectively, with corresponding adjustments to the liability and the associated non-current asset.

3. Significant accounting policies *continued*

Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based Payment* for all grants of equity instruments.

The Group operates an equity-settled share option plan and a share-based compensation plan in respect of certain Directors, employees and consultants. The Group also issues warrants to certain advisors which are classed as share-based payments. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value of the service received in exchange for the grant of options/warrants and equity is recognised as an expense. The fair value determined at the grant date of equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

The fair value of option and warrant grants are measured using the Black Scholes model for non-performance-based options. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

The grant by the Company of options and share-based compensation plans over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Revenue recognition

Natural Gas, NGLs and Oil

Revenue is comprised of the fair value of the consideration received or receivable from the sale of natural gas and crude oil products in the ordinary course of the Group's activities and is recognized when control is transferred to the purchaser. This is generally met when title passes from the Group to its customer. Revenue from oil and gas production represents the Group's share.

The Group sells its petroleum and natural gas revenue pursuant to variable-price contracts with terms of generally one year or less. The transaction price is based on the commodity index price at the point of title transfer and may include adjustments for quality, location or other factors depending on the contract terms. The Group delivers volumes of petroleum and natural gas product to the respective counterparty throughout the contract period. The Group evaluates its arrangements with third parties and partners to determine if the Group acts as the principal or as an agent. In making this evaluation and concluding that it acts as a principal, management considers if the Group obtains control of the product delivered, which is indicated by the Group having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk.

Revenue is recognized when a customer obtains legal title to the product, which is when volumes are physically transferred to the contract counterparty at a point of sale.

Verified Emission Reductions ("VERs")

VERs are purchased in increments corresponding to the Group's estimated production forecasts and are subsequently retired in accordance with actual monthly production levels. Once retired the VERs are recognised in the Group's income statement and presented within cost of sales.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments and making strategic decisions, has been identified as the Board of Directors.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

The following are the critical judgements and estimations that the Directors have made in the process of applying the Group's and Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Critical judgements

Exploration and evaluation assets - Group

The decision to transfer assets from exploration and evaluation assets to property, plant and equipment is based on the estimated proved and probable reserves which are in part, used to determine a project's technical feasibility and commercial viability.

There has been no transfer of exploration and evaluation assets during the year ended 31 December 2022.

Business combination and asset acquisitions - Group

The determination of whether a transaction is a business combination or an asset acquisition is based on management's assessment of each individual transaction based on the criteria of IFRS 3 *Business combinations*.

4. Critical accounting judgements and key sources of estimation uncertainty continued

If the initial concentration test is met, then the acquisition is accounted for as an asset acquisition and no further analysis is required. If the initial test is not met, the acquisition is further analysed to determine whether the acquisition meets the definition of a business under IFRS 3. If the acquisition meets the criteria and is, therefore, considered to be a business combination, the Group applies the acquisition method to account for the recognition and measurement of identifiable assets acquired, the liabilities assumed, any non-controlling interest and, if applicable, goodwill or a gain on the transaction.

During the year ended 31 December 2022, the Group acquired non-operated working interests in a number of wells in the Williston Basin, North Dakota, U.S. by means of a number of separate acquisitions. When analysed individually, the Directors consider that the Slawson and Williston basin accretive acquisitions meet the requirements of the concentration test under IFRS 3 based on the risks associated with categories of reserves acquired, and have therefore, been accounted for as an acquisition of assets and are presented within property, plant and equipment.

With regard to the Kaiser acquisition which completed in February 2022, the Directors consider that the acquisition does not meet the requirements of the concentration test and, on further analysis determined that it meets the definition of a business under IFRS 3. As a result, the transaction has been accounted for as a business combination.

Estimations

Business combination - Group

Estimates are required when determining the fair value of assets and liabilities acquired in a business combination. The Board calculated the fair value of the assets acquired using discounted cashflows, in which they estimated the appropriate oil price and discount rate to be applied in those calculations. When calculating the fair value of the liabilities acquired, estimates were made in respect of the risk adjusted rate and the inflation factor to be applied at the date of acquisition.

The fair value was deemed to equal the consideration given in exchange for the assets and the Group has, therefore, not recognised goodwill or a bargain purchase on acquisition.

The assets acquired are presented within property, plant and equipment and the liabilities acquired are disclosed within provisions. See notes 15 and 24 respectively.

Impairment and impairment reversals - Group

The recoverable amounts of CGUs and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to dispose. These calculations require the use of estimates and assumptions including information on forecasted oil and gas commodity prices, expected production volumes, quantity of reserves, discount rates, as well as future development costs, operating costs and royalty costs. Key assumptions in the determination of cashflows from reserves include reserves estimated by the Group's independent third party reserve evaluators. It is possible that any or all of these key assumptions may change, which may then impact the estimated values of the oil and gas properties and then require a material adjustment to the carrying value of E&E assets and property, plant and equipment. Significant management judgement is required to analyse internal and external indicators of impairment or historical impairment reversals. The Group monitors internal and external indicators of impairment relating to its non-current assets.

Recoverability of loans to subsidiary undertakings - Company only

The Company has outstanding loans from its directly held subsidiaries which have then made a number of loans to indirectly held subsidiaries as the primary method of financing the activity of those subsidiaries. The principal loans are shown in the Company balance sheet on the basis that the loans incur interest at a commercial rate according to the Group's inter-company loan policy, which is being rolled up until such time as the subsidiaries are in a position to settle.

In accordance with IFRS 9 *Financial instruments*, as the subsidiary undertakings cannot repay the loans at the reporting date, the Board has made an assessment of expected credit losses ("ECL"). The Group has not made any provision for impairment of its U.S. non-current assets and is expecting to generate profits in the future. As a result, the Board do not consider that any further provision for ECL is required and, therefore, subject to the recognition of exchange differences, a cumulative lifetime ECL of US\$28.4 million has been recognised at 31 December 2022 (2021: US\$31.8 million).

At 31 December 2022, the Company has total loans in its directly held subsidiaries of US\$72.3 million (2021: US\$66.9 million). See note 17.

Reserve estimates

Reserves are estimates of the amount of natural gas, NGLs and oil product that can be economically and legally extracted from the Group's properties. To calculate the reserves, significant estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of fields to be determined by analysing geological data, such as drilling samples. This process may require complex and difficult geological judgments and calculations to interpret the data.

Given the economics used to estimate reserve changes from year to year and, because additional geological data is generated during the course of operations, estimates of reserves may change from time to time.

Decommissioning

Decommissioning costs will be incurred by the Group at the end of the operating life of certain facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In addition, the Group determines the appropriate discount rate at the end of each reporting period. The Group uses a risk-free discount rate to determine the present value of the estimated future cash outflows to settle the obligation and this may change in response to numerous market factors. As a result, there could be significant adjustments to the provisions established which would affect future financial results. See note 24.

Derivative contracts

Derivative contracts are presented as financial assets when the fair value is positive and as financial liability when the fair value is negative. Net changes in fair value are recognised in profit or loss.

The fair value of derivative contracts is based on published market prices as at 31 December and the actual gains and losses realised on eventual cash settlement can vary due to subsequent fluctuations in commodity prices.

5. Segmental information

When considering the requirements of IFRS 8 *Operating segments*, the Board of Directors have determined that the Group has one main operating segment, the exploration, development and production of oil and gas resources based in the U.S. As a result, no segmental information is presented.

6. Revenue

Petroleum and natural gas revenue earned by the Group in the U.S. is disaggregated by commodity, as follows:

	2022 US\$'000	2021 US\$'000
Crude oil	35,257	5,359
Natural gas liquids	3,040	391
Natural gas	2,765	255
	41,062	6,005

7. Finance Costs

	2022 US\$'000	2021 US\$'000
Loan interest and fees	1,880	137
Amortisation of debt cost	236	-
Unwinding of discount on decommissioning	120	7
	2,236	144

8. Profit on ordinary activities before taxation

The profit before taxation for the year has been arrived at after charging/(crediting):

	2022 US\$'000	2021 US\$'000
Gains on derivative contracts	(1,781)	-
Depreciation and depletion of property, plant and equipment	12,668	1,778
Staff costs excluding share-based payments	1,830	892
Share-based payments	210	93
Expense relating to short-term leases	31	7
Foreign exchange gains ¹	(6,102)	(461)

¹ Foreign exchange gains include a gain of US\$5.6 million in respect of the translation of GBP designated loans between the Company and its U.S. subsidiary entities at 31 December 2022. See note 17.

9. Auditor's remuneration

Amounts payable to the external auditors and their associates in respect of audit services:

	2022 US\$'000	2021 US\$'000
Audit of these financial statements	161	103

10. Staff costs

The average monthly number of employees (including Executive Directors) was:

	Group		Company	
	2022 Number	2021 Number	2022 Number	2021 Number
Office and management	2	2	1	1
Operations	1	1	1	1
	3	3	2	2

Their aggregate remuneration comprised:

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Wages and salaries	1,380	945	640	452
Social security costs	91	60	81	53
Other pension costs	106	53	44	28
Share-based payments	19	49	10	26
	1,596	1,107	775	559

Included within group wages and salaries is US\$ nil (2021: US\$0.15 million) capitalised to exploration and evaluation assets, and US\$ nil (2021: US\$0.02 million) capitalised to property, plant and equipment.

Included within Company wages and salaries is US\$0.4 million (2021: US\$0.27 million) which relates to the activities of its subsidiary entities.

Refer to the Directors' Report for details regarding the remuneration of the highest paid Director and the total amounts for Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations.

11. Taxation

	2022 US\$'000	2021 US\$'000
Current tax:		
Current year	-	-
Deferred tax:		
Deferred tax	1,955	-
Tax charge on profit for the year	1,955	-

The charge for the year can be reconciled to the profit per the income statement as follows:

	2022 US\$'000	2021 US\$'000
Profit before tax	21,226	848
Profit multiplied by applicable tax rate - 25% U.S. (2021: 25% U.S.)	5,307	212
Effects of:		
Share-based payments	52	22
Prior year U.S. tax losses now recognised	(3,400)	(455)
Profits not deductible for tax purposes	(85)	-
Unrelieved tax losses carried forward	81	221
Tax charge on profit for the year	1,955	-

12. Profit per ordinary share

Basic profit per Ordinary Share is calculated by dividing the net profit for the year by the weighted average number of Ordinary Shares in issue during the year. Diluted profit per Ordinary Share is calculated by dividing the net profit for the year by the weighted average number of Ordinary Shares in issue during the year adjusted for the dilutive effect of potential Ordinary Shares arising from the Company's share options and warrants.

At 31 December 2022, 2.4 million share options and 89.6 million warrants were excluded from the diluted number of shares based on their market share price and exercise price.

The calculation of the basic and diluted profit per Ordinary Share is based on the following data:

	2022 US\$'000	2021 US\$'000
Profits		
Profits for the purpose of basic and diluted profit per Ordinary Share being net profit for the year	19,271	848
Number of shares		
	2022 Number '000	2021 Number '000
Weighted average number of shares for the purpose of basic profit per Ordinary Share	1,533,110	1,116,414
Weighted average number of shares for the purpose of basic profit per Ordinary Share	1,533,110	1,116,414
Dilutive share options	42,526	42,510
Dilutive warrants	55,721	100,033
Weighted average number of shares for the purpose of diluted profit per Ordinary Share	1,631,357	1,258,957
Profit per ordinary share		
Basic, cents per share	1.26	0.08
Diluted, cents per share	1.18	0.07

13. Exploration and evaluation assets

	US\$'000
Cost	
At 1 January 2021	13,914
Additions	9,149
Grant funds received	(290)
At 1 January 2022	22,773
Additions	15,213
At 31 December 2022	37,986

In October 2021, the Group announced that the U.S. Bureau of Land Management ("BLM") had approved the formation of a new 25,000-acre Federal Unit to be operated by the Group. The new unit, the White Sands Federal Unit ("WSU") incorporates many of the Group's existing leases, including the lease on which the State 16-2 and State 36-2 wells are situated. The entire 25,000-acre land position will now be held for a minimum of 36 months from 25 October 2021, without any lease expiry.

13. Exploration and evaluation assets *continued*

Acquisition of infrastructure and additional acreage

In August 2022, the Group announced that it had acquired an additional 1,920 acres in the Paradox Basin at a cost of US\$0.2 million, following which, the Group operated a total of 39,533 gross acres in the Paradox Basin, the majority of which the Group holds as operator.

In October 2022, the Group announced that it had acquired an additional package of oil and gas assets located in the Paradox Basin. The assets acquired included:

- The Powerline Road gas processing plant which, while not currently in operation, contains useable pre-existing infrastructure and related permits;
- 21 miles of six-inch gas gathering line which tie directly into the gas processing plant;
- 1,160 acres which comprise the final leasehold acreage parcel under the Group's existing 3D seismic;
- 4,320 additional acres not covered by the Group's existing 3D seismic;
- Five existing vertical wells which are expected to have reuse potential under the Group's ownership; and
- A full well database from the operator.

The consideration for the acquisition which has been treated as an acquisition of assets was US\$0.8 million. As a result of the acquisition, an additional asset of US\$2 million, together with a corresponding liability of US\$2 million was recognised in respect of ARO. See note 24.

In 2023, the Group increased its working interest across the WSU to 100% following the acquisition of the remaining 25% working interest in the acreage from RSOC.

U.S. Department of energy funding

During the year ended 31 December 2021, the Group received grant funding of US\$0.3 million from the University of Utah's Energy and Geoscience Institute ("EGI"), resulting in total grants awarded since 2020 of US\$2.1 million. In accordance with IAS 20, the carrying value of the Group's exploration and evaluation assets have been presented net of the funds received.

On 9 December 2022, the Group announced that it had secured additional US\$1 million research grant funding from the EGI, to be utilised for data gathering during the drilling of the State 36-2 LN-CC well. No funds were due or received during the year ended 31 December 2022.

State 36-2 well control incident

On 7 April 2023, the State 36-2 well experienced a significant control issue. Well control efforts were successful and remediation and clean up operations have commenced. A third-party confirmatory environmental survey was subsequently completed and the initial results found no evidence of lingering environmental impact. See note 31.

Impairment

The Directors assessed the indicators of impairment as set out in IFRS 6 and no indicators or impairment were identified. On this basis the Directors have satisfied themselves that there was no requirement to perform an impairment test at 31 December 2022 and, as a result, no provision for impairment has been made in respect of these assets at 31 December 2022 (2021: nil). See note 4.

Rockies Standard agreement

On 21 December 2022, the Group announced that it would acquire the remaining 25% working interest across the WSU from Rockies Standard Oil Company LLC ("RSOC"). The consideration is payable by the issue of up to 40,449,284 new Ordinary Shares of 0.1 pence in Zephyr Energy plc, at a price of 6.05 pence per new Ordinary Share. The Group announced completion of the acquisition on 10 February 2023. See note 31.

14. Property, plant and equipment

	Group				Company		
	Oil and gas properties US\$'000	Plant and machinery US\$'000	Right-of-use assets US\$'000	Total US\$'000	Plant and machinery US\$'000	Right-of-use assets US\$'000	Total US\$'000
Cost							
At 1 January 2021	-	129	57	186	23	57	80
Acquisitions	5,443	-	-	5,443	-	-	-
Additions	7,459	4	-	7,459	4	-	4
De-recognition	-	(106)	(57)	(163)	-	(57)	(57)
At 1 January 2022	12,902	27	-	12,929	27	-	27
Business combination (see note 15)	40,199	-	-	40,199	-	-	-
Acquisitions	3,362	-	-	3,362	-	-	-
Additions	9,757	-	-	9,757	-	-	-
Exchange differences	-	(3)	-	(3)	(3)	-	(3)
At 31 December 2022	66,220	24	-	66,244	24	-	24
Accumulated depreciation							
At 1 January 2021	-	117	41	158	11	41	52
Charge for the year	1,755	7	16	1,778	7	16	23
De-recognition	-	(106)	(57)	(163)	-	(57)	(57)
At 1 January 2022	1,755	18	-	1,773	18	-	18
Charge for the year	12,666	2	-	12,668	2	-	2
Exchange differences	-	(2)	-	(2)	(2)	-	(2)
At 31 December 2022	14,421	18	-	14,439	18	-	18
Carrying amount							
At 31 December 2022	51,799	6	-	51,805	6	-	6
At 31 December 2021	11,147	9	-	11,156	9	-	9
At 1 January 2021	-	12	16	28	12	16	28

The Group depreciation and depletion charge has been allocated to the income statement as follows:

	2022 US\$'000	2021 US\$'000
Cost of sales	12,666	1,755
Administrative expenses	2	23
	12,668	1,778

During the year ended 31 December 2022, the Group acquired non-operated working interests in a number of projects located in the Williston Basin, North Dakota, U.S.

14. Property, plant and equipment continued

Slawson acquisition

In December 2022, the Group completed the acquisition of non-operated working interests, ranging from 11% to 32%, in a further 6 proved not producing wells ("PNP") in the Williston Basin, North Dakota. The wells are operated by Slawson Exploration.

The cost of the acquisition was US\$2.9 million and the Group will contribute approximately US\$8.9 million CAPEX to bring the wells into production.

On 19 December 2022, the Group entered into a facility agreement with an experienced U.S. based institutional investor from which the Group received a 12-month revolving credit facility of up to US\$8 million. At 31 December 2022, US\$2.5 million had been drawn and used to finance the Slawson acquisition. See note 22.

No revenues were received from the Slawson acquisition during the year ended 31 December 2022.

The Group applied the requirements of IFRS 3 Business combinations to the acquisition and concluded that it meets the requirements of the initial concentration test and it has, therefore, been classified as an asset acquisition. See note 4.

Williston basin accretive acquisitions

In June 2022, the Group completed the acquisition of non-operated working interests in a further 14 wells, the majority of which had already been drilled and were awaiting completion. The working interest across the assets averaged approximately 1.4% per well and the operators in the newly acquired wells include Kraken Oil and Gas LLC and Bowline Energy LLC.

The cost of the acquisitions was US\$0.4 million.

The Group applied the requirements of IFRS 3 Business combinations to the acquisition and concluded that it meets the requirements of the initial concentration test and it has, therefore, been classified as an asset acquisition. See note 4.

Impairment

At 31 December 2022, the Directors considered the requirements of IAS 36 *Impairment of assets* in respect of its production and development assets. They have satisfied themselves that there were no indicators of impairment and, therefore, there was no requirement to perform an impairment test. As a result, no provision for impairment has been made in respect of these assets at 31 December 2022 (2021: nil). See note 4.

15. Business combination

Kaiser acquisition

In February 2022, the Group completed the acquisition of non-operated working interests in 163 producing wells ("PDP"), 18 PNP and DUCs and 47 proved but undeveloped ("PUD") locations for future drilling. The working interest across the assets averaged approximately 4%.

The assets were spread across 22 separate drilling pads in Mountrail County, North Dakota and are operated by Whiting Petroleum Corporation.

The initial cost of the acquisition, which was subject to post completion closing adjustments, was US\$36 million, of which US\$3 million was paid in 2021. See note 19. The closing adjustments included US\$3.9 million in respect of CAPEX and net income of US\$2 million in respect of income generated and expenditure arising in the period between the effective date of the agreement and subsequent completion on 16 February 2022. The total consideration paid in respect of the acquisition including post-closing adjustments was US\$37.9 million.

On 16 February 2022, the Group entered into a credit facility agreement with FIBT in respect of a term loan of US\$18 million, and a 12-month revolving credit facility of US\$10 million which was used towards financing the acquisition. Under the terms of the facility FIBT has a lien on the assets acquired. See note 22.

The Group applied the requirements of IFRS 3 Business combinations to the acquisition and concluded that it meets the criteria to be classified as a business combination.

15. Business combination *continued*

The fair value of the identifiable assets and liabilities acquired in respect of the acquisition are as follows:

	US\$'000
Assets	
Oil and gas assets	40,199
Liabilities	
Decommissioning obligation	(2,319)
Identifiable net assets at fair value	37,880
Consideration	
Cash paid at date of completion	39,543
Receivables outstanding at date of completion	(1,663)
	37,880

The fair value of the net assets acquired is deemed to be equal to the fair value of the consideration transferred and, therefore, the Group has not recognised goodwill or a bargain purchase on the acquisitions.

All outstanding receivables had been received at 31 December 2022.

Since the date of acquisition, the non-operated working interests acquired contributed US\$26.6 million to revenue and US\$22.1 million of operating profit. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been US\$42.4 million and the profit before tax from continuing operations would have been US\$23.8 million. In determining these amounts, management has assumed that the fair value adjustments arising on the date of acquisition would have been the same had the acquisition taken place on 1 January 2022.

16. Derivative contracts

During the year ended 31 December 2022, the Group entered into the following derivative contracts to mitigate its exposure to fluctuations in commodity prices.

Oil Contracts	Volume Bbl	Pricing point	Strike price per bbl US\$	Term	Fair value 31 December 2022 US\$'000
Swap	64,000	WTI NYMEX	100.80	1 April 2022 to 30 June 2022	Settled
Swap	57,000	WTI NYMEX	98.00	1 July 2022 to 30 September 2022	Settled
Swap	50,000	WTI NYMEX	94.55	1 October 2022 to 31 December 2022	Settled
Swap	69,000	WTI NYMEX	90.05	1 January 2023 to 30 June 2023	677
Swap	61,000	WTI NYMEX	85.40	1 July 2023 to 31 December 2023	456
Swap	27,000	WTI NYMEX	82.20	1 January 2024 to 31 March 2024	175
					1,308

The fair value of the outstanding contracts at 31 December 2022 has been recognised as follows:

	2022 US\$'000	2021 US\$'000
Current assets	1,133	-
Non-current assets	175	-
	1,308	-

The fair value measurement of derivative contracts has been categorised as Level 1 in the fair value hierarchy as the measurement inputs are quoted prices in active markets for identical assets at the measurement date.

The recognised gain on derivative contracts was as follows:

	2022 US\$'000	2021 US\$'000
Realised gains	473	-
Unrealised gains	1,308	-
	1,781	-

17. Investments

	Company		Total US\$'000
	Shares in subsidiary undertakings US\$'000	Loans to subsidiary undertakings US\$'000	
Cost			
At 1 January 2021	5,309	48,988	54,297
Additions	-	18,299	18,299
Exchange differences	(46)	(436)	(482)
At 1 January 2022	5,263	66,851	72,114
Additions	-	12,790	12,790
Exchange differences	(558)	(7,375)	(7,933)
At 31 December 2022	4,705	72,266	76,971
Impairment			
At 1 January 2021	5,309	32,065	37,374
Exchange differences	(46)	(277)	(323)
At 1 January 2022	5,263	31,788	37,051
Exchange differences	(558)	(3,372)	(3,930)
At 31 December 2022	4,705	28,416	33,121
Carrying amount			
At 31 December 2022	-	43,850	43,850
At 31 December 2021	-	35,063	35,063

Company

The Company has outstanding loans made to its subsidiaries which incur interest at a rate of 1% above the UK base rate. The loans are due for repayment once the subsidiaries are generating surplus cashflows from their revenue-generating activities, having met their operating, administrative and capital expenditure. This is not anticipated to happen within the next twelve months and, therefore, the loans are presented within non-current assets. The Board has assessed the recoverability of the loans and investments based on the expected future cashflows arising to the Company from its subsidiary entities and consider that no additional provision (2021: nil) should be recognised in the period.

The Company had investments in the following subsidiary undertakings as at 31 December 2022:

	Place of incorporation (or registration) and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Directly owned:				
VANE Minerals (UK) Limited	UK	100%	100%	Dormant
Rose Petroleum (UK) Limited	UK	100%	100%	Holding company
Indirectly owned:				
Rose Petroleum (US) LLC	U.S.	100%	100%	Holding company
Rose Petroleum (Utah) LLC	U.S.	100%	100%	Exploration and development
Zephyr Bakken LLC	U.S.	100%	100%	Production and development
Zephyr Williston LLC	U.S.	100%	100%	Production and development
Zephyr Hawk LLC	U.S.	100%	100%	Dormant

During the year ended 31 December 2022, Minerales VANE S.A de C.V., which previously held the Group's mining assets in Mexico ceased to have legal status.

During the year Zephyr Hawk LLC was formed in the U.S. and has not yet commenced trading.

The registered office address for all companies incorporated in the United Kingdom is 20-22 Wenlock Road, London, N1 7GU.

The registered office address for all companies registered in the U.S. is 1 Shipwright Street, Annapolis, MD 21401.

18. Trade and other receivables

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Trade receivables	3,919	1,227	-	-
VAT recoverable	41	32	41	33
Other receivables	330	4	-	-
	4,290	1,263	41	33

Trade receivables are due from third-party working interest operators. The Group consistently assesses the collectability of these receivables and at 31 December 2022 do not consider that any allowance for credit losses is required.

At 31 December 2022, other receivables include the sum of US\$0.3 million in respect of amounts due in respect of settled derivative contracts.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value, and represents the Group's maximum exposure to credit risk.

19. Prepayments and deposits

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Prepaid deposit	-	3,000	-	-
Prepayments and accrued income	347	573	41	31
	347	3,573	41	31

The prepaid deposit at 31 December 2021 represents a non-refundable deposit paid in respect of an agreement, subject to conditions precedent, with Kaiser Acquisition and Development to acquire a portfolio of non-operated working interest in wells located in the Williston Basin. The acquisition completed in February 2022. See note 15.

20. Cash and cash equivalents

Cash and cash equivalents held by the Group and the Company as at 31 December 2022 were US\$9 million and US\$0.1 million respectively (2021: US\$1.8 million, US\$1.6 million). The Directors consider that the carrying amount of these assets approximate to their fair value and do not believe that the Group is exposed to any significant credit risk on its cash.

21. Trade and other payables

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Trade payables	8,881	3,524	121	137
Taxes and social security	21	20	21	20
Other payables	110	116	1	-
Accruals	3,508	1,754	316	300
	12,520	5,414	459	457

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

Other payables primarily represent the potential liability due to the German licencing authorities in respect of historical, relinquished hydrocarbon licences in south-western Germany. The Group has continued to recognise the remaining potential liability although it continues to negotiate further reductions with the German licencing authorities.

No interest is generally charged on balances outstanding.

The Group has financial risk management policies to ensure that all payables are paid within the credit time frame.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

22. Borrowings

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Bridge loan	-	4,060	-	4,060
Term loan	15,129	-	-	-
Revolving credit	8,000	-	-	-
Less: amortised debt costs	(239)	-	-	-
FIBT facility	22,890	-	-	-
Revolving credit	2,580	-	-	-
Less: amortised debt costs	(77)	-	-	-
Slawson asset bridge facility	2,503	-	-	-
Total borrowings	25,393	4,060	-	4,060
Current borrowings	14,572	4,060	-	4,060
Non-current borrowings	10,821	-	-	-
	25,393	4,060	-	4,060

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Maturity analysis				
Less than 6 months	1,964	4,060	-	4,060
6 months to 1 year	12,607	-	-	-
1 year to 2 years	4,471	-	-	-
2 years to 5 years	6,351	-	-	-
	25,393	4,060	-	4,060

Bridge loan facility

On 22 November 2021, the Group announced that it had drawn down a bridge loan facility of US\$4 million (£3 million) provided by a number of sources, including certain Directors and Shareholders, which were primarily to fund payment of the non-refundable deposit due in respect of an agreement with Kaiser Acquisition and Development to acquire a portfolio of non-operated working interest in wells located in the Williston Basin. See note 19.

The terms of these loan agreements include payment of a 2% arrangement fee and interest payable at the rate of 1% per month payable monthly in arrears. These loans were due for repayment on 22 May 2022 but this was subsequently extended to 21 November 2022 and the rate of interest was increased to 1.25% per month. The loans were repaid in full during the year ended 31 December 2022.

First International Bank and Trust ("FIBT")

On 16 February 2022, the Group entered into a facility agreement with FIBT through its U.S. subsidiaries. Under the terms of the agreement the Group received a term loan of US\$18 million, repayable by 48 monthly instalments, and a 12-month revolving credit facility of US\$10 million. The term loan and revolving credit facility both incur interest at a rate of 6.74% and were subject to an arrangement fee of US\$180,000 and US\$100,000 respectively. A non-refundable fee of US\$50,000 was paid prior to the completion of the agreement.

The revolving credit facility has a standard redetermination every six months and was increased to a facility of up to US\$13 million in October 2022, which will next be redetermined in October 2023, and incurs interest at a rate of 9.74%. The loan was subject to an arrangement fee of US\$60,000. At 31 December 2022, the Group had drawn US\$8 million in respect of the facility.

FIBT has a lien on the assets of the Group's U.S. subsidiaries, Zephyr Bakken LLC and Rose Petroleum (Utah) LLC.

22. Borrowings continued

Slawson asset bridge facility

On 19 December 2022, the Group entered into a facility agreement with an experienced U.S. based institutional investor through its U.S. subsidiary Zephyr Williston LLC. Under the terms of the agreement the Group received a 12-month revolving credit facility of up to US\$8 million, of which US\$2.5 million had been drawn at 31 December 2022. The facility incurs interest at a rate 12% and was subject to an arrangement fee of US\$80,000 which was rolled up into the loan facility.

The movement in total borrowings during the year was:

	2022 US\$'000	2021 US\$'000
At 1 January	4,060	-
Cashflows – financing activities	21,569	4,060
Amortised debt costs	(236)	-
At 31 December	25,393	4,060

23. Deferred tax

	2022 US\$'000	2021 US\$'000
At 1 January	-	-
Charge	1,955	-
At 31 December	1,955	-

Represented by:

	2022 US\$'000	2021 US\$'000
U.S. tax losses	(9,511)	(6,818)
Oil and gas property	9,730	6,818
Unrealised foreign gain	1,409	-
Mark to Market adjustments	327	-
Net deferred tax liability	1,955	-

Unrelieved tax losses arising in the UK of US\$1.9 million have not been recognised as a deferred tax asset as there is currently insufficient evidence that the asset will be recoverable in the foreseeable future. The losses must be utilised in relation to the same operations.

24. Provisions

	Group Decommissioning	
	2022 US\$'000	2021 US\$'000
At 1 January	508	7
Business combinations	2,319	-
Additions	2,146	400
Change in estimates	(955)	94
Accretion interest	120	7
At 31 December	4,138	508
Non-current provision	4,138	508

In accordance with the Group's environmental policy and applicable legal requirements, where a liability for the retirement of a well, removal of production equipment and site restoration at the end of the production life of a well exists, the Group recognises a liability for decommissioning.

24. Provisions continued

During the year ended 31 December 2022, the Group recognised a provision for the decommissioning liability acquired in business combinations, additions in respect of wells where a change of status indicated the requirement for decommissioning provisions and any changes in estimates in respect of all relevant assets at 31 December 2022. See note 4.

The relevant rates used by the Group in calculating the provision for decommissioning are:

	31 December 2022 %	31 December 2021 %
Inflation factor	2.36	2.46
Risk free rate	4.14	1.94

The cost of recognising the decommissioning provision is included as part of the cost of the relevant asset and the provision at 31 December 2022 has been recognised as follows:

	2022 US\$'000	2021 US\$'000
Exploration and evaluation assets	1,990	73
Production and development assets	2,021	428
Unwinding of discount rate	127	7
	4,138	508

25. Share capital

	Group and Company			
	2022		2021	
	Number '000	US\$'000	Number '000	US\$'000
Authorised				
Ordinary Shares of 0.1 pence each	7,779,297	9,411	7,779,297	10,528
Deferred Shares of 9.9 pence each	227,753	27,278	227,753	30,515
	8,007,050	36,689	8,007,050	41,043
Allotted, issued and fully paid				
Ordinary Shares of 0.1 pence each	1,560,746	2,107	1,304,746	1,760
Deferred Shares of 9.9 pence each	227,753	40,305	227,753	40,305
	1,788,499	42,412	1,532,499	42,065

The Deferred Shares are not listed on AIM, do not give the holders any right to receive notice of, or to attend or vote at, any general meetings, have no entitlement to receive a dividend or other distribution or any entitlement to receive a repayment of nominal amount paid up on a return of assets on a winding up nor to receive or participate in any property or assets of the Company. The Company may, at its option, at any time redeem all of the Deferred Shares then in issue at a price not exceeding £0.01 from all Shareholders upon giving not less than 28 days' notice in writing.

Due to the difference in functional and presentation currencies of the Parent Company, foreign exchange differences can arise between the authorised share capital which is restated at each period end, and the allotted, issued and fully paid share capital which is presented at historical rates of exchange.

25. Share capital continued

Issued ordinary share capital

On 30 March 2021, the Company issued 200,000,000 Ordinary Shares of 0.1 pence each at a price of 2 pence per share, raising gross proceeds of US\$5.5 million (£4 million).

On 19 April 2021, the Company issued 300,000,000 Ordinary Shares of 0.1 pence each at a price of 2 pence per share, raising gross proceeds of US\$8.4 million (£6 million).

On 19 April 2021, the Company issued 2,428,885 Ordinary Shares of 0.1 pence in lieu of professional fees due to a service provider engaged by the Company.

Between 26 January 2021 and 30 June 2021, the Company issued 48,973,418 Ordinary Shares of 0.1 pence each at a price of 0.6875 pence per share, raising gross proceeds of US\$0.47 million (£0.34 million), in respect of the exercise of warrants.

On 30 June 2021, the Company issued 19,868,455 Ordinary Shares of 0.1 pence each at a price of 0.55 pence per share, raising gross proceeds of US\$0.15 million (£0.11 million), in respect of the exercise of warrants.

On 29 October 2021, the Company issued 2,727,273 Ordinary Shares of 0.1 pence each at a price of 1.32 pence per share, raising gross proceeds of US\$49,227 (£36,000), in respect of the exercise of warrants.

Between 1 February 2021 and 9 November 2021, the Company issued 34,545,455 Ordinary Shares of 0.1 pence each at a price of 2 pence per share, raising gross proceeds of US\$0.95 million (£0.69 million), in respect of the exercise of warrants.

On 1 February 2022, the Company issued 66,500,000 Ordinary Shares of 0.1 pence each at a price of 5 pence per share, raising gross proceeds of US\$4.5 million (£3.3 million).

On 11 February 2022, the Company issued 189,500,000 Ordinary Shares of 0.1 pence each at a price of 5 pence per share, raising gross proceeds of US\$12.9 million (£9.5 million).

	Ordinary Shares Number '000	Deferred Shares Number '000
At 1 January 2021	696,202	227,753
Allotment of shares	608,544	-
At 1 January 2022	1,304,746	227,753
Allotment of shares	256,000	-
At 31 December 2022	1,560,746	227,753

On 29 December 2022, 22,272,726 warrants were exercised at a price of 2 pence per Ordinary Share, raising gross proceeds of US\$0.5 million (£0.45 million). 22,272,726 Ordinary Shares of 0.1 pence each in respect of these warrants were not issued until 5 January 2023, and the proceeds have been presented within equity as shares to be issued at 31 December 2022. See note 26.

26. Warrant reserve

In November 2019, the Company undertook a fundraise which resulted in the issue of 113,636,364 Ordinary Shares of 0.1 pence each. Subscribers were granted warrants to subscribe for 56,818,182 new Ordinary Shares, representing one warrant for every two placing shares. The warrants were exercisable at a price of 2 pence per Ordinary Share for a period of two years from the date of issue. In 2021, the Company announced that it had extended the exercise date in respect of 22,272,727 outstanding warrants to 30 June 2022 then, on 29 June 2022, this was further extended to 31 December 2022. The resulting impact on the fair value charge of these warrants was US\$32,548. The warrants were exercised on 29 December 2022.

In February 2022, the Company undertook a fundraise which resulted in the issue of 256,000,000 Ordinary Shares of 0.1 pence each. Subscribers were granted warrants to subscribe for 64,000,000 new Ordinary Shares, representing one warrant for every four placing shares. The warrants are exercisable at a price of 7.5 pence per Ordinary Share for a period of three years from the date of issue.

The fair value of the warrants granted during the year has been calculated using the Black-Scholes model. The significant inputs into the model for the IFRS 2 valuation were as follows:

	Grants in year 64,000,000 Warrants
Exercise price (pence)	7.5
Expected volatility (%)	75
Expected life (years)	2.5 years
Risk free rates (%)	1.35
Expected dividends	-
Performance condition	None

The fair value of the warrants granted to subscribers during the year was US\$1.6 million (2021: nil) and this has been recognised as a movement between equity reserves.

Between 1 February 2021 and 9 November 2021, a total of 34,545,455 warrants were exercised at a price of 2 pence per Ordinary share, raising gross proceeds of US\$0.95 million (£0.69 million).

On 29 December 2022, 22,272,726 warrants were exercised at a price of 2 pence per Ordinary Share, raising gross proceeds of US\$0.5 million (£0.45 million). See note 25.

The fair value of the warrants exercised during the year was US\$0.12 million (2021: US\$0.14 million) and this has been recognised as a movement between equity reserves.

	Warrants Number '000
At 1 January 2021	56,818
Exercised	(34,545)
At 1 January 2022	22,273
Granted	64,000
Exercised	(22,273)
At 31 December 2022	64,000

27. Reserves

The share premium account represents the sum paid, in excess of the nominal value, of shares allotted, net of the costs of issue.

The shares to be issued reserve represents equity funds received for which shares have not yet been issued.

The warrant reserve represents accumulated charges made in respect of the issue of warrants to Shareholders. See note 26.

The share-based payment reserve represents accumulated charges made under IFRS 2 in respect of share-based payments.

The cumulative translation reserve represents foreign exchange differences arising on the translation of foreign operations and any net gain/(loss) on the hedge of net investment in foreign subsidiaries. The cumulative translation reserve also represents the net effect of the fact that the functional currency of the parent undertaking is GBP, whilst its reporting currency is US\$, resulting in exchange differences on translation of the parent undertakings equity.

The retained deficit includes all current and prior period retained profits/(losses).

28. Share-based payments

Equity settled share option plan

The Company has a Share Option Plan, 2013 Share Option Plan Part A (employees) and 2013 Share Option Plan Part B (non-employees), under which options to subscribe for the Company's shares have been granted to certain Directors and to selected employees and consultants.

At 31 December 2022, 45 million share options had been granted under the terms of the Share Option Plans and not exercised.

The Company has no legal or constructive obligation to repurchase or settle the options in cash. The latest date for exercise of the options is 28 May 2030 and, unless otherwise agreed, the options are forfeited if the employee or consultant leaves the Group before the options vest, or if those options which have vested are not exercised within three months of leaving.

Details of the share options outstanding at the end of the year were as follow:

	2022		2021	
	Number of options '000	Weighted average exercise price pence	Number of options '000	Weighted average exercise price pence
Outstanding at 1 January	45,281	5.57	45,434	5.93
Expired	-	-	(153)	112.5
Lapsed	(250)	145.4	-	-
Outstanding at 31 December	45,031	4.8	45,281	5.57
Exercisable at 31 December	34,365	6.1	23,948	10.0

The options outstanding at 31 December 2022 had an estimated weighted average remaining contractual life of 7 years (2021: 8 years), with an exercise price ranging between 0.1 pence and 342.5 pence.

There were no options issued during the year ended 31 December 2022 (2021: nil).

Share-based compensation

On 19 April 2021, the Company issued 2,428,885 Ordinary Shares of 0.1 pence in lieu of professional fees due to a service provider engaged by the Company. The fair value of the service provided could be measured directly, and accordingly an expense of US\$27,502 was recognised in the year ended 31 December 2021.

No shares have been issued in respect of share-based compensation during the year ended 31 December 2022.

Warrants

On 19 April 2021, the Company granted 32,350,000 warrants to TPI, in respect of broker services provided by them in relation to the placing of the Company's Ordinary Shares. The warrants permit the holder to subscribe for one new Ordinary Share at a price of 3 pence per Ordinary Share and are exercisable at any time for a period of three years from the date of issue.

On 11 February 2022, the Company granted 17,066,667 warrants to TPI, in respect of broker services provided by them in relation to the placing of the Company's Ordinary Shares. The warrants permit the holder to subscribe for one new Ordinary Share of 0.1 pence at a price of 7.5 pence per Ordinary Share and are exercisable at any time for a period of three years from the date of issue.

28. Share-based payments continued

On 11 February 2022, the Company granted 8,500,000 warrants to TPI, in respect of broker services provided by them in relation to the raising of bridge loan facilities. The warrants permit the holder to subscribe for one new Ordinary Share of 0.1 pence at a price of 7.5 pence per Ordinary Share and are exercisable at any time for a period of three years from the date of issue.

The fair value of the warrants issued during the year has been calculated using the Black-Scholes model. The significant inputs into the model for the IFRS 2 valuation were as follows:

	Grants in year 25,566,667 Warrants
Exercise price (pence)	7.5
Expected volatility (%)	75
Expected life (years)	2.5 years
Risk free rates (%)	1.31
Expected dividends	-
Performance condition	None

The fair value of the warrants granted during the year was US\$0.6 million (2021: US\$0.6 million).

In accordance with the Group's accounting policy, the costs of an equity transaction are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided. As a result, US\$0.4 million fair value charge relating to the warrants issued in respect of services provided in relation to the placing of the Company's Ordinary Shares has been treated as a movement between equity reserves.

Between 26 January 2021 and 30 June 2021, a total of 48,973,418 warrants were exercised at a price of 0.6875 pence per share, raising gross proceeds of US\$0.47 million (£0.34 million).

On 30 June 2021, 19,868,455 warrants were exercised at a price of 0.55 pence per share, raising gross proceeds of US\$0.15 million (£0.11 million).

On 29 October 2021, 2,727,273 warrants were exercised at a price of 1.32 pence per share, raising gross proceeds of US\$49,227 (£36,000).

During the year ended 31 December 2022, 1,360,000 options expired. The fair value of the expired options was US\$11,513 and this has been recognised as a movement between equity reserves.

No warrants have been exercised during the year. The fair value of the warrants exercised during the year ended 31 December 2021 was US\$0.63 million and this was recognised as a movement between equity reserves.

Details of the warrants included in share-based payments and outstanding at the end of the year were as follow:

	Warrants Number '000
At 1 January 2021	72,929
Granted	32,350
Exercised	(71,569)
At 1 January 2022	33,710
Granted	25,567
Expired	(1,360)
At 31 December 2022	57,917

In the year ended 31 December 2021, the Company recognised a total expense of US\$0.2 million (2021: US\$93,104) in respect of share-based payments, being US\$24,792 (2021: US\$65,602) in respect of the share option plan, US\$ nil (2021: US\$27,502) in respect of share-based compensation and US\$0.2 million (2021: nil) in respect of warrants.

29. Financial instruments

Financial risk management objectives

Management provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group. These risks include cashflow interest rate risk, foreign currency risk, credit risk, liquidity risk, and commodity price risk.

The policies for managing these risks are regularly reviewed and agreed by the Board who aim to minimise potential adverse effects on the Group's financial performance on a continuous basis.

The Group's principal financial assets are comprised of cash and cash equivalents, trade and other receivables derived from its operations and derivative contracts. The Group's principal financial liabilities are comprised of borrowings and trade and other payables and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, while maximising the return to Shareholders through the optimisation of the debt and equity balance. The Group's overall strategy is to minimise costs and liquidity risk.

The Group is not subject to externally imposed capital requirements.

The capital structure of the Group consists of cash and cash equivalents, interest bearing borrowings and equity attributable to owners of the Parent Company, comprising issued capital, reserves and retained earnings.

The Group plans its capital requirements on a regular basis and as part of this review the Directors consider the cost of capital and the risks associated with each class of capital.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3.

Categories of financial instruments

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Financial assets measured at amortised cost				
Cash and cash equivalents	8,996	1,811	118	1,574
Trade receivables	3,919	1,227	-	-
Other receivables	330	4	-	-
Loans to subsidiary undertakings	-	-	43,850	35,063
	13,245	3,042	43,968	36,637

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Financial assets measured at fair value				
Derivative contracts – hierarchy, Level 1	1,307	-	-	-

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Financial liabilities measured at amortised cost				
Trade payables	8,881	3,524	121	137
Other payables	110	116	1	-
Accruals	3,508	1,754	316	300
Borrowings	25,709	4,060	-	4,060
	38,208	9,454	438	4,497

29. Financial instruments *continued*

Fair value of financial instruments

The Directors consider that the carrying amount of its financial instruments approximates to their fair value.

Interest rate risk management

The Group's policy on interest rate management is agreed at Board level and is reviewed on an ongoing basis.

The Group is exposed to interest rate risk on cash held on deposit at banks but these accounts are held for liquidity rather than investment and the interest rate risk is not considered material to the Group.

The Group has no substantial exposure to fluctuating interest rates on its liabilities. The Group's interest-bearing loans incur a fixed interest rate charge and, therefore, the Group is not exposed to significant interest rate fluctuations.

Accordingly, no sensitivity analysis has been presented.

Foreign exchange risk and foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, with the result that exposure to exchange rate fluctuations arise.

The Group does not normally hedge against the effects of movements in exchange rates. The Group policy is not to repatriate any currency where there is the requirement or obligation to spend in the same denomination. When foreign exchange is required the Group purchases using the best spot rate available. As a result, there is limited currency risk within the Group other than cash and cash equivalents whose functional currency is different to presentation currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
GBP	90	116	71	169

Foreign currency sensitivity analysis

The financial statements of the Group's foreign subsidiaries are denominated in foreign currencies.

The Group is exposed primarily to movements in US\$ in respect of foreign currency risk arising from recognised assets.

Sensitivity analysis has been performed to indicate how the profit or loss would have been affected by changes in the exchange rate between GBP and US\$. The analysis is based on the weakening and strengthening of US\$ by 5%. A movement of 5% reflects a reasonably positive sensitivity when compared to historical movements over a three to five-year timeframe. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates.

The table below details the Group's sensitivity to a 5% decrease in US\$ against GBP. A positive number below indicates an increase in profit where US\$ strengthens 5% against GBP. For a 5% weakening of US\$ there would be an equal and opposite impact on the profit, and the balance below would be negative. The sensitivity calculated below is primarily attributable to the restatement of GBP denominated intercompany loans in the Group's U.S. subsidiaries.

	2022 US\$'000	2021 US\$'000
Income statement	(2,616)	(2,196)

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations when they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cashflow.

With the exception of borrowings, outlined in note 22, the Group's financial liabilities mature within less than six months.

At 31 December 2022, the Group was compliant with all the terms of its borrowings.

29. Financial instruments continued

At 31 December 2022, the maturity of undiscounted borrowings including interest was as follows:

	Group		Company	
	2022 US\$'000	2021 US\$'000	2022 US\$'000	2021 US\$'000
Maturity analysis				
Less than 6 months	2,543	4,105	-	4,105
6 months to 1 year	14,037	-		
1 year to 2 years	5,086	-		
2 years to 5 years	6,782	-		-
	28,448	4,105	-	4,105

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets. The Group does not hold any collateral. Generally, financial assets are written off when there is no reasonable expectation of recovery.

The Group does not have any significant credit risk exposure on trade and other receivables, which are current and collectible.

The credit risk on liquid funds (cash) is considered to be limited because the counterparties are financial institutions with high and good credit ratings assigned by international credit-rating agencies.

Commodity price management

The Group is exposed to commodity price risks relating to its ongoing business operations and uses derivative contracts to manage this risk.

The Group uses oil forward contracts to manage some of its transaction exposures and are intended to reduce the level of risk due to fluctuations in oil price. The forward contracts are not designated as cashflow hedges and are entered into for periods consistent with exposure of the underlying transactions.

30. Related party transactions

Amounts due from subsidiaries

Group

Other than foreign exchange gains attributable to the restatement of GBP denominated intercompany loans in the Company's U.S. subsidiaries, balances and transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation and are not disclosed in this note. A foreign exchange gain of US\$5.6 million (2021: US\$0.4 million) has been recognised in the income statement for the year ending 31 December 2022.

Company

The Company has entered into a number of unsecured related party transactions with subsidiary undertakings. The most significant transactions carried out between the Company and their subsidiary undertakings are management charges for services provided to the subsidiary company and long-term financing. Details of these transactions are as follows:

	2022		2021	
	Transactions in the year US\$'000	Amounts owing US\$'000	Transactions in the year US\$'000	Amounts owing US\$'000
Loans	11,042	58,952	17,467	53,870
Management charges	533	5,902	462	6,019
Interest (1% over UK base rate)	1,215	6,839	370	6,321
Capital contribution	-	573	-	641

30. Related party transactions *continued*

Remuneration of key management personnel

The remuneration of key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2022		2021	
	Purchase of services US\$'000	Amounts owing US\$'000	Purchase of services US\$'000	Amounts owing US\$'000
Short-term employee benefits	1,363	-	928	-
Post-employment benefits	84	67	42	28
Share-based payments	19	-	48	-
	1,466	67	1,018	28

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

All transactions with related parties have been conducted on an arm's length basis.

Directors' pensions

	2022 No	2021 No
The number of Directors to whom retirement benefits are accruing under money purchase schemes was	2	2

Transactions with related parties

Services

During the year ended 31 December 2022, the Group received services from OCE which is a related party as JC Harrington is indirectly the controlling shareholder and RL Grant is also a shareholder.

	2022 US\$'000	2021 US\$'000
Office services	17	18

Interest bearing loans

During the year ended 31 December 2021, the Group received loans from a number of sources, including certain Directors and Shareholders. See note 22.

At 31 December 2022, there were no outstanding loans due to Directors of the Company (including family interests and those entities in which Directors have a controlling interest), and payments have been made as follows:

	Loans outstanding US\$'000	2022 Repayment fee US\$'000	Interest paid US\$'000	Total US\$'000
RL Grant	-	4	3	7
CJ Eadie	-	1	1	2
OCE ¹	-	3	1	4
	-	8	5	13

	Loans outstanding US\$'000	2021 Arrangement fee US\$'000	Interest paid US\$'000	Total US\$'000
RL Grant	169	3	2	5
CJ Eadie	41	1	-	1
OCE ¹	101	2	1	3
	311	6	3	9

¹ JC Harrington is indirectly the controlling shareholder of OCE

30. Related party transactions continued

Warrant extension

On 29 June 2022, the Company announced that it had extended the exercise period of warrants issued to OCE and CJ Eadie as a result of their participation in an equity placing carried out by the Company in November 2019. In the Placing, OCE invested £480,000 and was issued with 21,818,182 warrants. CJ Eadie invested £10,000 and was issued 454,545 warrants. The expiry of the exercise period of the warrants was extended from 30 June 2022 to 31 December 2022 and the resulting impact on the fair value charge of these warrants was US\$32,548. See note 26.

The warrants were exercised on 29 December 2022, but the corresponding Ordinary Shares were not issued until January 2023. See note 26.

31. Post balance sheet events

Acquisition and share issue

On 10 February 2023, the Group announced that it had completed its acquisition of the remaining 25% working interest in the WSU in the Paradox Basin, Utah from RSOC with the issue of up to 40,449,284 new Ordinary Shares of 0.1p in Zephyr Energy plc, at a price of 6.05p per new Ordinary Share. On 10 February 2023, 13,483,095 new Ordinary Shares were issued and a further 26,966,189 new Ordinary Shares will be issued when the Group makes a final investment decision relating to the processing plant. See note 13.

Hedging programme

In May 2023, the Group announced the implementation of an additional hedging programming related to oil productions from its non-operated asset portfolio in the Williston Basin over the period to 31 March 2024. The programme has been implemented with BP Energy Company ("BP") one of the world's leading energy trading houses, as the hedge counterparty.

Equity fundraise

In June 2023, the Company raised gross proceeds of US\$3.9 million (£3.15million) by way of a placing of 90 million Ordinary Shares of 0.1 pence each at a price of 3.5 pence per Ordinary Share.

State 36-2 well control incident

On 7 April 2023, as workover operations were being completed on State 36-2, the well experienced a significant control issue despite multiple attempts to secure the well by the rig crew. The incident was initially caused by the failure in a safety valve, and subsequently resulted in hydrocarbons being released from the well in an uncontrolled manner.

In keeping with safety procedures, all personnel were safely evacuated without injury. All relevant authorities were notified and a specialist well control team (recommended by the Group's insurers) was deployed to bring the well under control as quickly as possible.

Ultimately, well control efforts were successful and remediation and clean-up operations have been commenced. A third-party confirmatory environmental survey was subsequently completed and the initial results found no evidence of lingering environmental impact.

Other Information

Directors, Advisers and Officers

Directors

RL Grant	Non-Executive Chairman
TH Reynolds	Non-Executive Director
GB Stein	Non-Executive Director
JC Harrington	Chief Executive Officer
CJ Eadie	Finance Director

Secretary

CJ Eadie

Registered office

20-22 Wenlock Road
London
N1 7GU

Auditor

BDO LLP
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London
W1U 7EU

Registrar

Link Group
29 Wellington Street
Leeds
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Bankers

Barclays Bank Plc
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1 Churchill Place
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E14 5HP

Public relations

Celicourt Communications Limited
4 Bream's Buildings
London
EC4A 1HP

Solicitors

RBG Legal Services Limited, trading as Memery Crystal
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London
EC4A 2DY

Nominated adviser

Allenby Capital Limited
5 St Helen's Place
London
EC3A 6AB

Joint brokers

Turner Pope Investments Ltd
3rd Floor
8 Fredericks Place
London
EC2R 8AB

Panmure Gordon (UK) Limited

40 Gracechurch Street
London
EC3V 0BT

Glossary

AGM	Annual General Meeting	OTCQB	OTCQB Venture Market
bbls	Barrels	£ / GBP	Pound Sterling
BLM	U.S. Bureau of Land Management	2P	Proved plus probable reserves
bo	Barrel of oil	PDP	Producing well
boe	Barrel of oil equivalent	PNP	Proved not producing well
boepd	Barrels of oil equivalent per day	PRAX	Prax Group
2C	Best estimate of contingent resources	PUD	Proved but undeveloped well
BP	BP Energy Company	ROIC	Return on invested capital
CAPEX	Capital expenditure	RSOC	Rockies Standard Oil Company LLC
CGU	Cash Generating Unit	Slawson	Slawson Exploration Company
Code	Corporate Governance Code	Sproule	Sproule International
CPR	Competent persons report	U.S.	United States
DOE	U.S. Department of Energy	US\$	United States Dollar
Dominion Energy	Dominion Energy Utah, LLC	2U	Unrisked prospective resources
DUC	Drilled but uncompleted well	VERs	Verified emission reductions
DSU	Drilling spacing unit	WSU	White Sands Unit
EGI	Utah's Energy and Geoscience Institute		
ESG	Environmental, social and governance		
ECL	Expected credit losses		
E&E	Exploration and evaluation		
E&P	Evaluation and production		
FIBT	First International Bank and Trust		
HSRP	Hydraulically stimulated resource play		
IFRS	International Financial Reporting Standards		
IASB	International Accounting Standards Board		
KPI	Key performance indicator		
<	Less than		
LTI	Lost time injuries		
M&A	Merger & Acquisition		
mmboe	Million barrels of oil equivalent		
>	More than		
NED	Non-Executive Director		
OCE	Origin Creek Energy LLC		



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