Zephyr Energy plc

(formerly Rose Petroleum plc)

Annual Report and Financial Statements

For the year ended 31 December

2020

Contents

Chairman's Statement

Overview

During the 2020 financial year and in the period since, Zephyr Energy plc (formerly Rose Petroleum plc), ("Zephyr", the "Company" or the "Group") has undergone a wholesale transformation, evolving from a single project exploration company to a self-sustaining oil producing group with a diverse portfolio of assets in two established oil producing basins in the United States of America (the "U.S.").

The speed and depth of the Group's transformation is even more remarkable when one considers that it was achieved against the turmoil, economic uncertainty and restrictive environment stemming from the global COVID-19 pandemic. Our progress during this tumultuous period was largely due to the extraordinary effort of the Zephyr team, which demonstrated loyalty, professionalism, tenacity and skill throughout this very challenging period.

Progress was made across our portfolio, on both operated and non-operated assets. Zephyr's operated asset is its flagship project in the Paradox Basin, Utah, U.S. (the "Paradox project"). Following the successful completion of the State 16-2 "dual-use" stratigraphic test well (the "State 16-2 well") which also provided an extensive amount of new geologic data, the project is poised for significant near-term growth as we plan to drill and target first oil production in the coming months. Our non-operated portfolio of assets now includes producing, near-term production and near-term drilling assets in the Williston Basin, North Dakota, U.S., one of the country's most prolific oil producing basins, and we expect to see substantial cash flows from these over the next twelve months.

In short, I am gratified by the growth achieved and proud that we are successfully executing on our twin core values: to be responsible stewards of our investors' capital, and to be responsible stewards of the environment in which we work.

Background

When I wrote my Chairman's Statement for the 2019 Annual Report, we had recently completed the first phase of the Group's restructuring, a process which involved augmenting the Board, reducing our operational cost base by way of an essential cost cutting programme, restructuring our Paradox Basin joint venture and acreage position, exiting from all non-core legacy assets and, finally, implementing a new strategy to position the Group for responsible growth and profitability. This groundwork paved the way for the corporate and operational achievements of the last twelve months.

In late 2019, we unveiled the Group's new strategy which, in addition to developing the Paradox project, was focused on the acquisition of production and development opportunities in the upstream oil and gas sector in the Rocky Mountain region of the U.S., an area with a significant number of opportunities suited to Zephyr's strengths and size. Our stated goal was to produce a cost-effective path to near-term oil production and cash flow while simultaneously progressing our Paradox project and we have successfully delivered on these two key objectives.

Operational Activity

Over the past year, we made substantial headway on our operated Paradox project and Zephyr is now on the cusp of a drilling programme that will target first production after many years of hard work and considerable investment in the project. We believe, perhaps more now than ever, that the Paradox project has the potential to be a project of significant scale and profitability.

Having completed the restructuring of the Paradox project in late 2019, it was important to make progress on (and under) the ground in 2020. I was therefore delighted that we were able to secure United States dollars ("US$") 2 million in U.S. Government grant funding, which enabled us to proceed with the drilling of the State 16-2 well. Securing the funding was a fantastic achievement and one that proved to be an important catalyst for the future development of the project, representing a major step towards realisation of the project's considerable potential while minimising the capital risk to the Group. It is rare to secure grant funding from the U.S. Government for drilling activities of this nature, and this bespoke funding is testament to both the potential of our Paradox project and the efforts of our project team who conceived of, negotiated and delivered this funding successfully.

Chairman's Statement

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Once funding was secured, our focus immediately turned to well planning and operations. Zephyr's drilling team executed the drilling programme in a highly-commendable fashion, through harsh winter conditions, to successfully complete the well in record time for the basin. Drilling operations were safe, effective, conducted in accordance with Covid-19-related guidance and restrictions, and were completed well within the Group's forecast timeframe. We were also able to gather significant amounts of reservoir data which, after several months of review and appraisal, gave us the confidence to make the subsequent decision to plan to drill the sidetrack lateral off the State 16-2 well (the "State 16-2LN CC" or "the lateral") as soon as practicable. Following the successful completion of our fundraise in April 2021, we are now fully funded to initiate this drilling programme.

The lateral will target first production from the Cane Creek reservoir and, importantly, will utilise the pre-existing roads, pad and wellbore from the State 16-2 well as a low-cost, low environmental impact sidetrack host. We continue to progress the permitting, drilling plan, contracting and resource evaluation ahead of the drilling programme and we remain on track to drill the well in July 2021.

The significant core and log data acquired from the State 16-2 Cane Creek reservoir corroborated and supported the Board's long-held view that the Paradox has the potential to be a project of considerable scale. The drilling of the lateral well, which has robust and highly attractive forecast economics, has the potential to be a pivotal moment for the Group, and comes after seven years of substantial effort and investment in the asset.

In parallel with delivering on our strategy for the Paradox project, we have also been able to deliver on the second of our corporate objectives, by securing highly economic existing and near-term production through the acquisition of assets in the Williston Basin (the "Williston project") in Q1 2021, and through our subsequent acquisition of 11.6 acres in the Williston Basin (the "Continental acreage") in Q2 2021.

The acquired assets are ideal additions to our asset portfolio and an excellent complement to our Paradox project. Since mid-2019, the Group has evaluated a significant number of potential acquisitions, and the Board believed the assets ultimately acquired to be particularly attractive. We negotiated the Williston project acquisition on highly favourable economic terms, especially in light of the considerable rise in oil prices which occurred during the period between the initial agreement on purchase terms and the ultimate closing of the acquisition. The fact that the first five Williston wells acquired had all drilling risk removed was also a major bonus, and the resulting cash flows expected from the project will enable us to begin to utilise the Group's historical tax losses of more than US$16 million.

The substantial cash flows expected to be generated from the Williston project and the Continental acreage have the potential to be reinvested into the development of the Paradox project or into other opportunities, again demonstrating the strength of a balanced portfolio of project assets.

The Board retains interest in progressing the Company's potential working interest acquisition in the McCoy lease in the Denver-Julesburg Basin ("DJ Basin") in Weld County, Colorado, U.S. (the "McCoy acquisition"). However, while the potential acquisition continues to meet the Company's key acquisition criteria, the timeline for development has been put on hold by the current operator of the project while an expansion of the project is considered. Zephyr will continue to monitor progress and will look to make an investment decision once a firm development schedule is established and if revised terms can be negotiated. In the meantime, given the amount of forthcoming activity on the Company's Paradox and Williston projects, the Board does not intend to seek to negotiate an extension to Zephyr's existing option on the McCoy acquisition beyond the current expiry date of 30 June 2021. That said, the seller of the McCoy asset has confirmed that the Company will be given a right of first refusal for participation in the project, should the seller seek funding once development plans are solidified.

Chairman's Statement

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Environmental, Social and Governance (ESG)

During 2020, we executed a complete rebranding of the Group, including the change of the Company's name. Just as importantly, the Board spent significant time formulating and agreeing upon 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.

Under my Chairmanship, I want to ensure that every action and investment decision we make is considered against our core values. This includes the following points of focus:

- we will continue to protect the Group, safeguard its existing asset base and position it for attractive growth opportunities;
- we will continue to seek 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;
- we will continue to adopt a disciplined focus on growth via the acquisition of producing or near-term development opportunities in the Rocky Mountain region. Even in this unusual economic environment, we believe that attractive, value-additive acquisitions are available and may be acquired using non-traditional funding structures;
- we will continue with our programme of tight financial controls and cash preservation which will enable the Group to continue trading effectively; and
- we will continue to ensure management and the Board are aligned with our Shareholders through significant ownership of shares – the Board currently controls over 14 per cent of the Company's issued Share Capital.

Outlook

The period under review was one of substantial progress for the Group – I am confident that over the next few months we will continue to see a flurry of corporate and operational activity as we target production from the Paradox project and accumulate significant cash flows from our non-operated assets in the Williston Basin. These are exciting times, and we look forward to keeping all our stakeholders updated on our progress.

A final word must be said about our team and their extraordinary efforts to build value for all Shareholders. During the difficult days in late spring 2020, with the COVID-19 pandemic raging across the globe, our people and partners showed great loyalty in staying committed at a time when we had to implement a radical cost-cutting programme to ensure the survival of the Company. Our team's tenacity and resilience ensured we kept momentum at a crucial time which enabled us all to enjoy the operational successes of recent months. I would like to thank each and every one of them for their hard work, sacrifice and dedication.

Just as importantly, I would like to extend my heartfelt gratitude to our Company's Shareholders and advisers for their support during a year which contained both unimaginable global turmoil and significant corporate growth. You have demonstrated great loyalty during this transformative period in the Company's history, and on behalf of the entire management team and Board of Directors, I thank you.

RL Grant
4 June 2021

Strategic Report

The Directors present their Strategic Report on the Group for the year ended 31 December 2020.

Principal Objectives and Strategies

Zephyr Energy plc is an Oil & Gas ("O&G") exploration and production company. The Company's key objective is to deliver sustainable Shareholder growth through the responsible development of oil and gas assets in the Rocky Mountain region of the U.S.

To achieve this objective, the Group prioritised:

- the hiring of Board professionals with significant experience in the O&G sector, with a particular focus on operations, development, governance, finance, merger and acquisition and turnaround experience;
- a sharpening of focus – we are wholly focused on responsible Exploration and Production ("E&P") investment in the Rocky Mountain region and have exited all other legacy sectors and geographies;
- the acceleration of data acquisition and development efforts on our flagship Paradox project;
- the redoubling of ESG efforts, including corporate governance compliance 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 private equity investors);
- the design and build of a technology-led acquisition process which can rapidly assess and acquire distressed E&P assets in our geographical area of focus;
- the potential addition 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

In the Company's Interim Results announcement for the six months ended 30 June 2020, we stated that following the completion of significant restructuring efforts, the Company was well positioned as a clean, low-overhead, unlevered and value-focused vehicle from which to build – with a strategy and value set designed to deliver responsible growth for all stakeholders. Furthermore, we went on to say that "over the coming months we expect to see further exciting developments on the Paradox project as well as the expansion of our asset portfolio through acquisitions or partnerships."

We are proud to report that, just eight months after making these statements, we have been able to meet and exceed those objectives. Zephyr is now a cash-generating, oil producing Group with significant organic growth prospects. We believe our recent operational successes have been achieved not just by sheer hard work, but by being bold, opportunistic and agile in a marketplace experiencing turmoil and disruption due to the impacts of the global pandemic.

Paradox project

During the period under review and in the following months, the Company made impressive headway on the Paradox project where Zephyr has operatorship and a 75 per cent working interest in over 25,000 gross leased acres. We are happy to report that we are now on the brink of a drilling programme that will target first production on the project, which comes after many years of considerable investment in these assets. We believe, more than ever, that the Paradox project has the potential to be a project of significant scale and profitability.

By way of illustration, in their Competent Persons Report ("CPR") prepared for the Group in June 2018, Gaffney Cline and Associates ("Gaffney Cline") estimated that on a project-wide 2C basis (50% chance of exceedance), the Cane Creek reservoir on the Group's acreage (which includes the proposed State 16-2LN CC) holds estimated recoverable resources of over 12 million barrels of oil equivalent ("mmboe") and a net present value of approximately US$156 million using a flat oil price of US$60 per barrel of oil ("bo") and a ten per cent discount rate. This highlights the considerable opportunity we have with the project – it is now our task to unlock this value.

Background

During the latter part of 2019, the Board completed a comprehensive review of the Paradox project and elected to pursue a strategy which, in its opinion, would optimally position the project for future growth. This included the following steps:

Strategic Report

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- focusing on the most prospective acreage (as identified by the 3D seismic acquisition undertaken by the Group and from the subsequent verification work carried out by Schlumberger);
- releasing acreage that the Group believed to be non-prospective or on too short a lease to merit further exploration work and/or expenditure; and
- actively acquiring further contiguous acreage in areas we consider most prospective.

Stakeholders will continue to see a reshaping of the Paradox acreage position as we proactively manage our leasehold position, and the work to secure longer lease terms and contiguous acreage in areas we consider most prospective remains ongoing.

This 'high-grading' process was absolutely key for the future success of the project and enabled us to secure the project for the long-term while at the same time reducing carrying costs. The Board believes that a concentrated focus on the most highly prospective acreage not only created a long-term sustainable future for the project, but will also make the organic development of the acreage more economically advantageous.

Having secured the tenure of the most attractive project acreage, our next task was to commence operations on the ground and begin the process of unlocking the considerable potential value of the project. We were therefore delighted to announce, in September 2020, a partnership to drill a "dual-use" research well on our acreage.

State 16-2 well

Following many months of intense effort, negotiation and planning, Zephyr was able to secure US$2 million of U.S. Government grant funding which enabled us to proceed with the drilling of the State 16-2 well, in conjunction with a project team led by the University of Utah's Energy & Geoscience Institute ("EGI") with participants including the Utah Geological Survey (the "UGS") and other Utah-based partners. The project was sponsored by the U.S. Department of Energy and its National Energy Technology Laboratory (the "DOE"), and securing the funding was a notable achievement for the Group and a significant catalyst for accelerated development of the project.

The DOE's ongoing project is entitled "Improving Production in Utah's Emerging Northern Paradox Unconventional Oil Play". Its goal is to assess and perform optimisation analyses for more focused, efficient and less environmentally-impactful oil production strategies in the northern Paradox Basin, particularly in the Pennsylvanian Paradox Formation's Cane Creek reservoir (the "Cane Creek") and adjacent overlying reservoirs.

As part of this study, the EGI and UGS originally planned to drill a vertical stratigraphic test well to gather data to improve the understanding of the Paradox Basin play. The proposed well would target the Cane Creek reservoir and potentially the C18/19 reservoirs, acquiring both core data and a comprehensive well log suite in order to provide valuable new basin data.

Over a period of several months, the project team analysed multiple potential well locations across the Northern Paradox Basin, and we were delighted that the EGI and UGS selected Zephyr's Paradox acreage as the location on which to drill the well. Our acreage was selected for a number of reasons, including the quality of our underlying 3D seismic data (which is being tied into the well results to build a stronger integrated predictive model) as well as a favourable surface location located on a pre-existing pad.

After our acreage was selected as the location for the test well, we worked with our project partners to design the well in such a way that it could be used not only to obtain the data required by the research project, but so that it could be re-used as a low-cost, low environmental-impact host for a future lateral appraisal well.

After a period of intense activity to complete all drill planning activities (including site preparation, road work, permit approvals and vendor selection) we were delighted to announce on 18 December 2020 that the well had been spud – and 19 days later we announced that the well had been successfully drilled to a measured depth of 9,745 feet total depth ("TD"). Drilling operations were safe and effective, conducted in accordance with Covid-19 related guidance and restrictions, and were completed well within the Group's forecast timeframe. This was a fantastic achievement by everybody involved.

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Our primary objective was to drill and set casing at 6,450 measured depth ("MD") in order to provide a host wellbore for a future horizontal side track. This goal was achieved within thirteen days from spud. As mentioned above, we subsequently reached TD within nineteen days of spud, a marked improvement over historical drilling efforts in this part of the Paradox Basin. The reduction in drilling time represented a major operational success and demonstrated that the cost of future development wells could be significantly reduced from earlier estimates, thereby improving the overall potential value of the Paradox project for Shareholders.

Our secondary objective was to acquire a significant amount of new data to improve our understanding of our Paradox acreage. We were pleased to report that Zephyr's data acquisition programme secured the following:

- approximately 113 feet of continuous whole core across the historically productive Cane Creek reservoir interval – the first whole Cane Creek core ever to be retrieved in the northern part of the Paradox Basin;
- rotary side wall cores in eleven shallower exploration targets; and
- gamma ray, neutron density, resistivity, formation litho scanner and sonic wireline log data across the bulk of the Paradox Formation, which secured significant additional petrophysical data.

Following the completion of drilling and data acquisition operations, the State 16-2 well was temporarily plugged at 6,450 feet TD, stable and for future re-use as a lateral wellbore host.

Decision to proceed with the State 16-2LN CC lateral well

The core and log data acquired from the State 16-2 Cane Creek reservoir both corroborated and supported the Board's long-held view that the Paradox has the potential to be a project of considerable scale.

On 15 March 2021, we announced a detailed update on the Paradox project, which included confirmation of evidence of hydrocarbon saturation across the entirety of the continuous core acquired from the Cane Creek reservoir. When integrated with the recently acquired log data, existing 3D seismic data, geologic and regional analogue analysis, the resulting analysis gave the Board strong justification for advancement to the next phase of project. The Board therefore elected to proceed with detailed planning for the near-term drilling of the lateral, and following the successful completion of a fundraise in April 2021, the Company is fully funded to commence the drilling of the lateral portion of the well.

The lateral will test the potential productivity and target initial production from the Cane Creek reservoir natural fracture system, and will utilise the pre-existing roads, pad and wellbore from the State 16-2 as a low-cost, low environmental impact sidetrack host. We continue to progress the permitting, drilling plan, contracting and resource evaluation ahead of the drilling programme and the Company remains on track to drill the well in July 2021. It is estimated that the cost of the lateral well will be approximately US$3.8 million, including contingency funds.

We have continued to refine the cost and economic benefits of the lateral, which is forecast to have strong economics based on its 2C estimate, including:

- A single-well net present value of approximately US$8.2 million at US$60.00/bo and at a ten per cent. discount rate (NPV-10);
- a cash flow breakeven oil price of US$20.55/bo; and
- a single-well estimated ultimate recovery of 694,000 boe.

The Board recognises that commercial production from the Paradox Formation across the Zephyr lease holding has not yet been proven. The State 16-2LN-CC well will represent another milestone in testing this potential and the effectiveness of the Cane Creek reservoir and natural fracture system. The well has been designed to target a series of 3D seismic attributes that are often associated with natural fractures. This will test both the reservoir effectiveness at the well location and the ability of the 3D to predict fracture presence and productivity elsewhere within the 3D area. The team is also evaluating the potential to hydraulically stimulate the well if the natural fracture system is not productive at this location. This may be a secondary route to delivering a profitable well and greater development.

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The drilling of the State 16-2LN CC well, with its robust and highly attractive forecast economics, has the potential to be a pivotal moment for the Group, and comes on the back of seven years of substantial time and investment in the asset. We are excited for this next phase of development.

Further upside to Paradox project

In addition to the potential of the Cane Creek reservoir, the Board remains encouraged by indications that demonstrate the potential for multiple stacked overlying reservoirs across our Paradox resource base. Initial log analysis from the State 16-2 well suggested hydrocarbon saturation across the bulk of these reservoirs, a result consistent with offset wells and which provided compelling evidence for the presence of stacked continuous oil and gas plays – plays which could potentially be drained should viable natural fracture networks be identified or should artificial hydraulic stimulation completion techniques be applied successfully. Unlike the Cane Creek reservoir, these overlying secondary zones have not demonstrated historical production and therefore require significant additional evaluation before a resource base assessment can be concluded. We are directing a considerable amount of effort to this at present and will keep the market updated as the detailed analysis progresses.

A key consideration for the Board was how to optimally fund additional development of the Paradox project. I was therefore delighted that we were able to complete the acquisition of the Williston project which has the potential to provide the Company with cash flow to fund future additional Paradox activity well beyond the near-term drilling of the State 16-2LN CC.

Williston Project

In March 2021, the Group completed the purchase of the Williston project which is expected to provide the Group with low-risk oil production from five already drilled wells which are, as mentioned above, expected to generate substantial cash flows that can be utilised across the Group.

The initial cost of the acquisition was US$350,000 (payable to the seller of the assets). In addition, the Company made a payment of approximately US$3.7 million to the project Operator for historical capital expenditure (“CAPEX”) obligations on the project.

The key details of the project were as follows:

- acquisition of non-operated working interests in five wells (one producing well and four drilled but uncompleted wells (a “DUC” or “DUCS”) in Mountrail County, North Dakota, U.S.;
- the working interests on the five wells ranged from 16.8% to 37.2%;
- the wells are operated by Whiting Petroleum, an active and highly experienced operator in the Williston Basin;
- the Group agreed headline terms with the vendor when the oil price was at US$45/bo;
- the producing well has been on production since March 2020 and first revenue payments have now been received by Zephyr;
- the completions on the four DUCs commenced in April and production revenues are targeted to be received on all four wells by September 2021;
- 2P Reserves acquired were estimated at 449,434 boe to the Group; and
- the five wells are spread across three separate drilling pads, creating attractive production diversification.

The key benefits of the Williston acquisition were as follows:

- a low-risk acquisition with substantial near-term cash flow expected;
- no remaining drilling risk – all five wells were already drilled successfully to target depth;
- excellent complement to (and funding source for future development on) the Paradox project; and
- no federal tax payments payable in the short-term as profits can be offset against the Group’s historic tax losses.

Zephyr is now responsible for payment of future CAPEX obligations related to the Williston project as the DUCs are completed and tied in. These costs are estimated to be approximately US$4.2 million, and will become due after the wells are completed.

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The economics on the Williston project, as calculated by the Group, are extremely attractive and the acquisition established the Group as an immediate oil producer. Once the four DUC wells are online in summer 2021, the Group forecasts that the acquisition will provide:

- up to US$8 million of undiscounted cash flow over the next 12 months, and a total of US$15 million of undiscounted cash flow over the lifetime of the project, for Zephyr to deploy into the Paradox development or into additional projects (assuming an oil price of US$60/bo);
- 2P net present value at NPV-10 of US$4.3 million;
- a cash flow breakeven oil price of US$36.69/bo (inclusive of all CAPEX expended);
- approximately 720 barrels of oil equivalent per day ("boepd") average production anticipated in H2 2021;
- a one-year cash payback; and
- the opportunity to shelter U.S. federal tax payments by utilising the Group's historical tax losses of more than US$16 million.

Continental acreage

In May 2021, Zephyr announced the acquisition of the Continental acreage, which gave the Group a working interest in a drilling spacing unit ("DSU") operated by Continental Resources Inc ("Continental"), the largest operator in the Williston Basin. The Continental acreage is located approximately ten miles from the Company's Williston project, in a highly attractive part of the Basin. The cost of the acreage acquired by Zephyr was approximately US$170,000 and was paid for from the Company's existing cash resources.

Continental has already commenced drilling two initial wells on the DSU ("Initial wells"), with up to an additional 22 future wells ("Future wells") forecast to be drilled by 2023.

- Zephyr's forecast net CAPEX for the initial wells is approximately US$135,000 which will be funded from existing cash resources.
- Zephyr's net CAPEX for the proposed 22 Future wells is forecast to be approximately US$710,000, which could also be funded from the Group's existing cash resources.
- CAPEX on the Future wells is discretionary, and Zephyr's Board of Directors will elect whether to participate in those wells on a case-by-case basis.

The Continental acreage has, net to Zephyr, Company estimated 2P reserves (from all 24 wells) of circa 60,000 boe which were acquired at a price of approximately US$2.83/boe. The 1P reserves on the Continental acreage are, net to Zephyr, estimated at circa 41,000 boe and the 3P reserves at circa 72,000 boe.

This opportunistic acquisition has strong forecast economics and provided the Company with further exposure to low risk, near-term production. Initial revenues from the acquisition are expected to be received in the second half of this year.

The acquisition of the Continental acreage, in a DSU operated by a first-class Williston Basin participant, is a strong example of what can be achieved in the current market. The acreage is in an excellent location and provides both near-term drilling exposure and future drilling optionality. While the initial scale of the acquisition is small, for a minimal upfront cost Zephyr now has potential to participate in up to twenty-four highly economic wells over the next two years. Given the continued improvement in drilling costs and robust oil price environment, we believe this acreage will provide attractive near-term cash flow returns and is an excellent addition to our asset portfolio.

McCoy update

In November 2019, the Group announced that it had entered into a Letter of Intent ("LOI") with Captiva Energy Holdings II, LLC ("CEH") in respect of the proposed McCoy acquisition

The McCoy acquisition would provide the Group with near-term, low-risk horizontal development drilling exposure in the prolific Niobrara resource play, and on acreage contiguous to other major DJ Basin operators including Occidental Petroleum Corporation, Great Western Operating Company LLC (a subsidiary of Great Western Petroleum), and Crestone Peak Resources. The DJ Basin is a mature oil and gas basin currently undergoing a resurgence as vertical production is replaced with successful one-, two-, and three-mile horizontal well developments. The McCoy lease is located in an active part of the DJ Basin and a horizontal redevelopment of the existing productive lease is proposed.

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The Board retains interest in progressing the McCoy acquisition. However, while the asset continues to meet the Company's key acquisition criteria, the timeline for development has been put on hold by the current operator of the project while an expansion of the project is considered. Zephyr will continue to monitor progress and will look to make an investment decision once a firm development schedule is established and if revised terms can be negotiated. In the meantime, given the amount of forthcoming activity on the Company's Paradox and Williston projects, the Board does not intend to seek to negotiate an extension to Zephyr's existing option on the McCoy acquisition beyond the current expiry date of 30 June 2021. That said, the seller of the McCoy asset has confirmed that the Company will be given a right of first refusal for participation in the project, should the seller seek funding once development plans are solidified. The Board will continue to monitor the situation on the project and plans to review the project again once development milestones are more clearly defined.

Financial Review

Income Statement

Zephyr reports a net loss after tax from continuing operations of US$2.3 million or a loss of 0.66 cents per Ordinary Share for the year ended 31 December 2020 (2019: net loss after tax from continuing operations of US$3.0 million or 1.74 cents per Ordinary Share). The operating loss for the year was US$2.36 million, which was lower than that in the prior year (2019: US$2.81 million) primarily due to a reduction in administrative expenses as a result of the cost cutting programme implemented during the period.

The first production revenues from the Williston project will be evident in the interim financial statements for the 2021 financial year.

Balance Sheet

Total investment in the Group's intangible exploration and evaluation assets as at 31 December 2020 was US$13.9 million (2019: US$13.5 million) reflecting continuing investment in the Paradox project. The Group's expenditure on intangible exploration and evaluation assets is shown net of US$1.8 million funded by the DOE during the year.

Cash and cash equivalents as at 31 December 2020 were US$3.9 million (2019: US$1.1 million). During the period, the Company raised gross proceeds of US$2.9 million (2019: US$2.0 million) through the placing of new Ordinary Shares in the Company. In March 2021 the Company announced that it had raised a further US$13.6 million (before expenses) through the placing of new Ordinary Shares in the Company.

Key Performance Indicators

The Board monitors the performance of the Group in delivering its key corporate and operational milestones for a given period. In particular, the Board monitors the completion of milestones against allocated time, resources and budget in respect of its O&G development activities.

As part of Zephyr's ongoing transition to an oil production company, the Board is in the process of developing an appropriate set of key performance indicators ("KPIs") against which to benchmark how it performs against the operational, health and safety and ESG standards that will be put in place by the Board. The Board is absolutely committed to ensuring that the Group operates to the highest standards of sustainability and responsibility.

The Board will communicate its value set and revised KPIs once the transition process is complete.

Principal Risks and Uncertainties and Risk Management

There are a number of potential risks and uncertainties which could have a material impact on Zephyr's long-term performance and could cause actual results to differ from expected and historical results. The principal risks and uncertainties that we face 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.
- 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.

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Financial Risks

- There is a risk that the carrying value of the Group's assets will not be recovered through future revenues, leading to significant impairment losses. The Group manages the recoverability of its assets and assesses the economic viability throughout the exploration, development and production phases.
- 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. While the Group does not hedge against the risk at present, this policy will be continually reviewed by the Board as our production and revenues increase in future.
- Funds are maintained by the Group in Great Britain Pounds sterling ("GBP") and 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, although this policy may be reviewed in future.
- 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 cash flows. The Board reviews the Group's cash flow projections and forecasts on a monthly basis.
- The Group has financial and operational obligations in order to keep licences, leases and permits related to its projects in good standing. If the Group does not have sufficient funds to develop its portfolio of projects and to keep the projects in good standing there is a risk that underlying leases, licences and permits may expire potentially leading to a loss of the underlying assets and a subsequent impairment of the assets in the Group's financial statements.

Corporate and Social Responsibility

Health and Safety

It is the objective of the Group to ensure the health and safety of its employees and of any other persons who could be affected by its operations. 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 taking all necessary steps to protect its people against the ongoing coronavirus pandemic.

Significant Relationships

The Group enjoys good relationships with all of its suppliers, professional advisers and operational partners.

Statement by the Directors in performance of their Statutory Duties in Accordance with S172(1) 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 considers its stakeholders to be the individuals and organisations that are affected by the Group's operations and with whom the Company seeks to proactively engage on a regular basis. The Company strives 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, such as merger and acquisition diligence and the management of risk. Further details on our stakeholder engagement is set out below.

Stakeholder Engagement

Shareholders

The Board seeks to understand and meet Shareholder needs and expectations. It has established a strategy and business model which it believes will promote long term value to Shareholders. The Company's details are displayed on its website allowing Shareholders to contact the Company if they so wish. The Board attaches great importance to providing Shareholders with clear and transparent information on the Group's activities and strategy. Details of all

Strategic Report

(continued)

Shareholder communications are provided on the Company's website, including historical annual reports and governance related material.

The major interests in the Company's Ordinary Shares are set out in the Directors' report. Key metrics for our Shareholders includes the Company's share price and earnings per share. 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.

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

We seek to develop and maintain positive relationships and regular dialogue with various stakeholder groups within the federal, state and local governments in our areas of operation.

Executive and operational management are active in their engagement with governments and regulators to address legislative, regulatory and operational matters important to our business.

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.

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 IS014001 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 14) and in respect of the environment at the relevant section above.

Significant decisions made

During the year under review, the Directors secured US$2 million in U.S. Government grant funding to facilitate the drilling of the State 16-2 well. The decisions to proceed with the grant funding and the drilling on the State 16-2 well were logical decisions to ensure the advancement of the Paradox project and were unanimously deemed by Board members to be in the best interests of the Company.

In addition, and to facilitate the drilling of the State 16-2 well, the Company completed an equity fundraise through the issue of Ordinary Shares in the Company. Details of this fundraise can be found in the relevant sections of this Annual Report. In arriving at the decision to proceed with the fundraise the Directors considered the cash position of the Company, the dilution impact that the respective fundraises would have on the existing Shareholders of the Company and the importance of progressing the Paradox project. After due consideration, the Directors considered the fundraise 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

4 June 2021

Directors' Report

The Directors present the Annual Report and financial statements of the Group for the year ended 31 December 2020.

Review of Future Developments
A review of future developments is given in the Strategic Report.

Dividends
The Directors do not recommend the payment of a dividend for the year ended 31 December 2020 (2019: US$ 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' interests in Shares and Share Options
The Directors who held office at 31 December 2020 had the following interests, including family interests, in the Ordinary Shares of the Company as follows:

	Number of Ordinary Shares	
	31 December 2020	1 January 2020
CJ Eadie	5,275,095	3,425,095
JC Harrington	134,636,364[1]	68,636,364[1]
TH Reynolds	1,000,000	1,000,000
GB Stein	1,850,000	–

[1] JC Harrington is indirectly the controlling Shareholder of Origin Creek Energy LLC which is beneficial owner of 134,636,364 shares. RL Grant is a 19% Shareholder of Origin Creek Energy LLC.

Since 31 December 2020, the Directors have increased their shareholdings as follows:

Origin Creek Energy LLC ("OCE") subscribed for 2,500,000 Ordinary Shares in the Company's placing in April 2021 giving it an interest in 137,136,364 Ordinary Shares.

JC Harrington subscribed for 750,000 Ordinary Shares in the Company's placing in April 2021 resulting in a total beneficial interest of 138,590,300 Ordinary Shares.

RL Grant subscribed for 1,500,000 Ordinary Shares in the Company's placing in April 2021, resulting in a total beneficial interest of 1,500,000 Ordinary Shares. In addition, Rick Grant has a minority shareholding in OCE which also holds Ordinary Shares as noted above.

CJ Eadie subscribed for 1,500,000 Ordinary Shares in the Company's placing in April 2021, resulting in a total beneficial interest of 6,775,095 Ordinary Shares.

GB Stein subscribed for 500,000 Ordinary Shares in the Company's placing in April 2021, resulting in a total beneficial interest of 2,350,000 Ordinary Shares.

Directors' Report

(continued)

Directors' interests in share options of the Company, including family interests, as at 31 December 2020 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 2020, Directors and Officers liability insurance for the benefit of all Directors of the Company.

Corporate Governance

Corporate governance matters are set out on pages 14 to 20.

Substantial Shareholdings

Other than the Directors' interests shown above, the Company has been notified of the following substantial interests as at 4 June 2020:

	Number of shares	Percentage of issued share capital
Origin Creek Energy LLC	137,136,634	11.2%
Tyndall Investment Management	89,364,094	7.3%
Edale Europe Absolute Master Fund	54,000,000	4.4%

Post Balance Sheet Events

Events after the balance sheet date have been disclosed in note 28 to the financial statements.

Financial Instruments

During the year the Company and its subsidiary undertakings applied financial risk management policies as disclosed in note 26 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

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

On behalf of the Board

CJ Eadie
Finance Director

4 June 2021

Corporate Governance Statement

Zephyr is committed to achieving the highest standards of corporate governance and 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.

Following the recent rapid transformation of the Group the Board is currently conducting a review of all of its corporate governance processes to ensure that Zephyr continues to comply with best practice as outlined in the Code.

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.

The Board and its Committees

Formal Board meetings are scheduled, on average, every four to six weeks with regular contact between meetings as required. The meetings are held to monitor and implement strategy, to review performance (including cash forecasts, ESG compliance), potential acquisitions, fundraising activity and to approve all communication to the London Stock Exchange and Shareholders.

The matters reserved for the Board include, amongst others, approval of the Group's long-term objectives, policies and budgets, changes relating to the Group's management structure, approval of the Group's financial statements and ensuring maintenance of good systems of internal control. Procedures are established to ensure that appropriate information is communicated to the Board in a timely manner to enable it to fulfil its duties.

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.

Corporate Governance Statement

(continued)

The Board also has an established Remuneration Committee, which comprises the Non-Executive Chairman and one Non-Executive Director. The Remuneration Committee meets 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 Groups share option plans. No Director is involved in any decision relating to his own remuneration.

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

Communication with Shareholders

The Board encourages regular 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;
- an annual cash forecast is prepared and formally adopted by the Board. This is reviewed on a monthly basis and actual performance against forecast is closely monitored;
- 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 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; and
- consolidated management information is prepared on a regular basis.

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 the Group is not yet large enough to warrant this at the present time.

Corporate Governance Statement

(continued)

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 investor roadshows, attending investor conferences and our regular reporting 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.	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
Embed effective risk management, considering both opportunities and threats, throughout the organisation	Fully Compliant	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. 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.	Principal risk section of the Strategic Report within the Annual Report. Corporate Governance section of the Annual Report

Corporate Governance Statement

(continued)

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Maintain the Board as a well-functioning, balanced team led by the Chair	Fully Compliant	The Board comprises the Non-Executive Chairman, two Executive Directors and two Non-Executive Directors. One of the Non-Executive Directors, Gordon Stein acts as the Group's Senior Independent Director. 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. 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.	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	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 facilities. 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. 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. 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.	See Corporate Governance section of Annual Report for full details on the Board structure

Corporate Governance Statement

(continued)

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Fully Compliant	The Chairman continually assesses the contribution of each member of the Board to ensure that: • 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 Over the next few months, as a result of the Group's recent restructuring and expansion, we intend to implement a programme to review 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.	Key Performance indicators in the Strategic Report
Promote a culture that is based on ethical values and behaviours	Fully Compliant	The Board aims to lead by example and do what is in the best interests of the Group. Over the last twelve months, the Board spent significant 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.	Chairman's Statement, Strategic Report Corporate Governance Statement
Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	Fully Compliant	The Board meets regularly for both formal Board meetings and for informal discussions. 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 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.	Corporate Governance Statement

Corporate Governance Statement

(continued)

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (continued)		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. 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. The Audit Committee is Chaired by the Senior Independent Director, Gordon Stein. The Non-Executive Director, Tom Reynolds, is the other member of the Committee. The Remuneration Committee is Chaired by the Senior Independent Director, Gordon Stein. The Non-Executive Chairman, Rick Grant, is the other member of the Committee.	
Communicate how the Group is governed and is performing by maintaining a dialogue with Shareholders and other relevant stakeholders	Fully Compliant	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 Group's website; https://zephyrplc.com.	www.zephyrplc.com

Corporate Governance Statement

(continued)

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Communicate how the Group is governed and is performing by maintaining a dialogue with Shareholders and other relevant stakeholders (continued)		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. The Group's website includes the following: • 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.	

Going Concern

The Directors have prepared cash flow forecasts for the Group for the period to 30 June 2022 based on their assessment of both the discretionary and the non-discretionary cash requirements of the Group during this period. These cash flow forecasts include its normal operating costs for operations together with all committed development expenditure. The forecasts also take account of the Company's recent fundraise and the near-term CAPEX requirements for, and the forecast revenues from, the Paradox project, the Williston project and the Continental acreage.

The Directors are confident that the Group has, or has access to, sufficient resources to enable it to continue in operation for at least the next twelve months.

The Directors therefore continue to adopt the going concern basis in preparing the consolidated financial statements.

JC Harrington
Chief Executive Officer

4 June 2021

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 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 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 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 (formerly Rose Petroleum plc)

We have audited the financial statements of Zephyr Energy plc (the "Parent company') and its subsidiaries (the "Group") for the year ended 31 December 2020 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheet, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statement and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the Parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements 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 are independent of the Group and 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 SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to Going Concern

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 evaluation of the Directors' assessment of the Group's and Parent company's ability to continue to adopt the going concern basis of accounting included obtaining and reviewing management's latest cash flow forecasts for the period to June 2022, performing sensitivity analysis on the forecasts and assessing the appropriateness of the disclosures in the financial statements.

We have observed that the Group currently has significant cash reserves following the successful US$13.6 million fundraise in March 2021. As disclosed in note 28, US$4 million was immediately invested into the Williston Project. The Group's latest forecasts indicate that there are significant near-term capital outflows during the remainder of 2021 in the region of US$3.8 million for the proposed Paradox lateral production well and US$4.2 million for the Group's future share of capital expenditure on the Williston Project. Thereafter, the forecasts anticipate cash generation from the sale of resources as new production wells come on stream.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the Parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Independent Auditor's Report

(continued)

Summary of our Audit Approach

Key audit matters	**Parent Company** Impairment of intercompany receivables
Materiality	**Group** Overall materiality: US$310,000 (2019: US$219,000) Performance materiality: US$232,000 (2019: US$164,000) **Parent Company** Overall materiality: US$309,000 (2019: US$82,500) Performance materiality: US$231,000 (2019: US$61,800)
Scope	Our audit procedures covered 100% of total assets, 100% of net assets and 100% of loss before tax.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group and Parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) 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 Group and Parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of intercompany receivables (Parent company only)

Key audit matter description	The Parent company has receivable balances from subsidiary undertakings that are currently loss making. The receivables are repayable on demand and the subsidiary undertakings do not have sufficient liquid assets to make repayment should the parent company call in the receivable balance. One of the most significant matters in the current year audit of the Parent company is the extent to which these receivable balances are impaired and management are required to calculate an expected credit loss ("ECL") provision in accordance with IFRS9 Financial Instruments. The calculation of ECL's involves a significant degree of judgement as management have to make assumptions about future cash generation and consider multiple scenarios through which the balances may be recovered. Given the magnitude of these receivable balances and the potential for impairment we considered this matter to be one of the matters of most significance in the current year audit. At the 31 December 2020, the carrying value of amounts due from Group undertakings amounted to US$16.9 million after recording a cumulative ECL provision of US$32.1 million (see note 4).
How the matter was addressed in the audit	We obtained management's calculation of the ECL and the underlying calculations prepared to support the carrying value of the balance and performed work as follows: Assessed the reasonableness of the scenarios considered by management and the probabilities assigned to each. Considered the appropriateness of the financial outcome for each scenario. Recalculated the computation of the ECL.

Independent Auditor's Report

(continued)

Our Application of Materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	US$310,000 (2019: US$219,000)	US$309,000 (2019: US$82,500)
Basis for determining overall materiality	2% of net assets	2% of net assets
Rationale for benchmark applied	Net assets are considered to be the appropriate benchmark for a pre-revenue exploration business.	Net assets are considered to be appropriate as the Parent company is purely a holding company and no income statement is presented.
Performance materiality	US$232,000 (2019: US$164,000)	US$231,000 (2019: US$61,800)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of US$15,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of US$15,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An Overview of the Scope of our Audit

The Group consists of 5 components, located in the following countries; United Kingdom, U.S. and Mexico. The coverage achieved by our audit procedures was:

	Number of components	Total assets	Net assets	Loss before tax
Full scope audit	4	100%	100%	100%
Total	**4**	**100%**	**100%**	**100%**

Analytical procedures at group level were performed for the remaining component.

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. 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.

Independent Auditor's Report

(continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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:

- 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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.

The extent to which the Audit was considered capable of detecting irregularities including Fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

Independent Auditor's Report

(continued)

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the Group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the Group and Parent company operate in and how the Group and Parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation/Regulation	Additional audit procedures performed by the audit engagement team included:
IFRS and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://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 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 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Thornton (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Central Square, 5th Floor
29 Wellington Street
Leeds
LS1 4DL

4 June 2021

Consolidated Income Statement

For the year ended 31 December 2020

	Notes	2020 US$'000	2019 US$'000
Continuing operations			
Administrative expenses		(1,517)	(1,785)
Development expenses	6	(135)	(206)
Foreign exchange losses		(705)	(819)
Operating loss		(2,357)	(2,810)
Impairment of financial assets		–	(201)
Other income	7	13	–
Loss on ordinary activities before taxation	8	(2,344)	(3,011)
Taxation charge	11	–	–
Loss for the year from continuing operations		(2,344)	(3,011)
Discontinued operations			
Profit from discontinued operations, net of tax		–	1,987
Loss for the year attributable to owners of the parent company		(2,344)	(1,024)
Loss per Ordinary Share			
From continuing operations			
Basic and diluted, cents per share	12	(0.66)	(1.74)
From continuing and discontinued operations			
Basic and diluted, cents per share	12	(0.66)	(0.59)

The notes on pages 35 to 64 form part of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 US$'000	2019 US$'000
Loss for the year attributable to owners of the parent company	(2,344)	(1,024)
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss, net of tax		
Foreign currency translation differences on foreign operations	(1,277)	(1,669)
Total comprehensive loss for the year attributable to owners of the parent company	(3,621)	(2,693)

The notes on pages 35 to 64 form part of the financial statements.

Consolidated Balance Sheet

As at 31 December 2020

Company No 04573663

	Notes	2020 US$'000	2019 US$'000
Non-current assets			
Intangible assets	13	13,914	13,549
Property, plant and equipment	14	28	77
		13,942	13,626
Current assets			
Trade and other receivables	16	135	112
Cash and cash equivalents	17	3,940	1,084
		4,075	1,196
Total assets		18,017	14,822
Current liabilities			
Trade and other payables	18	(2,464)	(442)
Lease liabilities	19	(8)	(45)
		(2,472)	(487)
Non-current liabilities			
Lease liabilities	19	–	(8)
Provisions	21	(7)	(57)
		(7)	(65)
Total liabilities		(2,479)	(552)
Net assets		15,538	14,270
Equity			
Share capital	22	41,221	40,688
Share premium account	24	39,638	37,975
Warrant reserve	23	227	568
Share-based payment reserve	24	3,762	3,748
Cumulative translation reserve	24	(9,225)	(9,972)
Retained deficit	24	(60,085)	(58,737)
Equity attributable to owners of the parent company		15,538	14,270

The financial statements on pages 27 to 34 were approved by the Directors and authorised for issue on 4 June 2021 and are signed on its behalf by:

CJ Eadie
Finance Director

The notes on pages 35 to 64 form part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital US$'000	Share premium account US$'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 2019	40,504	36,472	341	3,645	(8,909)	(57,764)	14,289
Transactions with owners in their capacity as owners:							
Issue of equity shares	184	1,851	–	–	–	–	2,035
Expenses of issue of equity shares	–	(121)	–	46	–	–	(75)
Transfer to warrant reserve	–	(227)	227	–	–	–	–
Share-based payments	–	–	–	100	–	–	100
Transfer to retained deficit in respect of lapsed warrants	–	–	–	(51)	–	51	–
Effect of foreign exchange rates	–	–	–	8	–	–	8
Total transactions with owners in their capacity as owner	184	1,503	227	103	–	51	2,068
Loss for the year	–	–	–	–	–	(1,024)	(1,024)
Other comprehensive income:							
Currency translation differences	–	–	–	–	(1,669)	–	(1,669)
Total other comprehensive income for the year	–	–	–	–	(1,669)	–	(1,669)
Total comprehensive income for the year	–	–	–	–	(1,669)	(1,024)	(2,693)
Currency translation differences on equity at historical rates	–	–	–	–	2,515	–	2,515
Recycled foreign currency translation differences on discontinued operations	–	–	–	–	(1,909)	–	(1,909)
As at 31 December 2019	40,688	37,975	568	3,748	(9,972)	(58,737)	14,270
Transactions with owners in their capacity as owners:							
Issue of equity shares	**533**	**2,401**	**–**	**–**	**–**	**–**	**2,934**
Expenses of issue of equity shares	**–**	**(738)**	**–**	**594**	**–**	**–**	**(144)**
Transfer in respect of lapsed warrants	**–**	**–**	**(341)**	**(251)**	**–**	**592**	**–**
Share-based payments	**–**	**–**	**–**	**79**	**–**	**–**	**79**
Transfer to retained deficit in respect of lapsed options	**–**	**–**	**–**	**(404)**	**–**	**404**	**–**
Effect of foreign exchange rates	**–**	**–**	**–**	**(4)**	**–**	**–**	**(4)**
Total transactions with owners in their capacity as owner	**533**	**1,663**	**(341)**	**14**	**–**	**996**	**2,865**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(2,344)**	**(2,344)**
Other comprehensive income:							
Currency translation differences	**–**	**–**	**–**	**–**	**(1,277)**	**–**	**(1,277)**
Total other comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,277)**	**–**	**(1,277)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,277)**	**(2,344)**	**(3,621)**
Currency translation differences on equity at historical rates	**–**	**–**	**–**	**–**	**2,024**	**–**	**2,024**
As at 31 December 2020	**41,221**	**39,638**	**227**	**3,762**	**(9,225)**	**(60,085)**	**15,538**

The notes on pages 35 to 64 form part of the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2020

	2020 US$'000	2019 US$'000
Operating activities		
Loss before taxation from continuing operations	(2,344)	(3,011)
Profit before taxation from discontinued operations	–	1,987
	(2,344)	(1,024)
Fair value gain on investments	–	(27)
Adjustments for:		
Depreciation of property, plant and equipment	49	35
Gain on disposal of property, plant and equipment	–	(5)
Gain on disposal intangible exploration and evaluation assets	–	(122)
Impairment of financial assets	–	201
Share-based payments	79	100
Unrealised foreign exchange loss/(gain)	739	(1,076)
Operating outflow before movements in working capital	(1,477)	(1,918)
(Increase)/decrease in trade and other receivables	(20)	119
Increase in trade and other payables	147	142
Cash used in operations	(1,350)	(1,657)
Income tax recovered	–	–
Net cash used in operating activities	(1,350)	(1,657)
Investing activities		
Purchase of intangible exploration and evaluation assets	(355)	(428)
Grant funds received	1,800	–
Proceeds on disposal of property, plant and equipment	–	5
Proceeds on disposal of intangible exploration and evaluation assets	–	122
Proceeds on disposal of investments	–	502
Net cash generated from investing activities	1,445	201
Financing activities		
Proceeds from issue of shares	2,934	2,035
Expenses of issue of shares	(144)	(75)
Repayment of lease liabilities	(45)	(38)
Net cash generated from financing activities	2,745	1,922
Net increase in cash and cash equivalents	2,840	466
Cash and cash equivalents at beginning of year	1,084	616
Effect of foreign exchange rate changes	16	2
Cash and cash equivalents at end of year	3,940	1,084

The notes on pages 35 to 64 form part of the financial statements.

Company Balance Sheet

As at 31 December 2020 — Company No 04573663

	Notes	2020 US$'000	2019 US$'000
Non-current assets			
Investments	15	16,923	15,201
Property, plant and equipment	14	28	67
		16,951	15,268
Current assets			
Trade and other receivables	16	35	89
Cash and cash equivalents	17	2,245	1,070
		2,280	1,159
Total assets		19,231	16,427
Current liabilities			
Trade and other payables	18	(316)	(213)
Lease liabilities	19	(8)	(35)
		(324)	(248)
Non-current liabilities			
Lease liabilities	19	–	(8)
Total liabilities		(324)	(256)
Net assets		18,907	16,171
Equity			
Share capital	22	41,221	40,688
Share premium account	24	39,638	37,975
Warrant reserve	23	227	568
Share-based payment reserve	24	3,762	3,748
Cumulative translation reserve	24	(7,743)	(8,344)
Retained deficit	24	(58,198)	(58,464)
Total equity		18,907	16,171

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

The loss for the Company for the year ended 31 December 2020 is US$326,000 (2019: US$840,000).

The financial statements on pages 27 to 34 were approved by the Directors and authorised for issue on 4 June 2021 and are signed on its behalf by:

CJ Eadie
Finance Director

The notes on pages 35 to 64 form part of the financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital US$'000	Share premium account US$'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 2019	40,504	36,472	341	3,645	(8,957)	(57,675)	14,330
Transactions with owners in their capacity as owners:							
Issue of equity shares	184	1,851	–	–	–	–	2,035
Expenses of issue of equity shares	–	(121)	–	46	–	–	(75)
Transfer to warrant reserve	–	(227)	227	–	–	–	–
Share-based payments	–	–	–	100	–	–	100
Transfer to retained deficit in respect of lapsed warrants	–	–	–	(51)	–	51	–
Effect of foreign exchange rates	–	–	–	8	–	–	8
Total transactions with owners in their capacity as owner	184	1,503	227	103	–	51	2,068
Loss for the year	–	–	–	–	–	(840)	(840)
Other comprehensive income:							
Currency translation differences	–	–	–	–	(1,902)	–	(1,902)
Total other comprehensive income for the year	–	–	–	–	(1,902)	–	(1,902)
Total comprehensive income for the year	–	–	–	–	(1,902)	(840)	(2,742)
Currency translation differences on equity at historical rates	–	–	–	–	2,515	–	2,515
As at 31 December 2019	40,688	37,975	568	3,748	(8,344)	(58,464)	16,171
Transactions with owners in their capacity as owners:							
Issue of equity shares	**533**	**2,401**	**–**	**–**	**–**	**–**	**2,934**
Expenses of issue of equity shares	**–**	**(738)**	**–**	**594**	**–**	**–**	**(144)**
Transfer to warrant reserve	**–**	**–**	**(341)**	**(251)**	**–**	**592**	**–**
Share-based payments	**–**	**–**	**–**	**79**	**–**	**–**	**79**
Transfer to capital contribution in respect of lapsed options	**–**	**–**	**–**	**(404)**	**–**	**–**	**(404)**
Effect of foreign exchange rates	**–**	**–**	**–**	**(4)**	**–**	**–**	**(4)**
Total transactions with owners in their capacity as owner	**533**	**1,663**	**(341)**	**14**	**–**	**592**	**2,461**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(326)**	**(326)**
Other comprehensive income:							
Currency translation differences	**–**	**–**	**–**	**–**	**(1,439)**	**–**	**(1,439)**
Total other comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,439)**	**–**	**(1,439)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,439)**	**(326)**	**(1,765)**
Currency translation differences on equity at historical rates	**–**	**–**	**–**	**–**	**2,040**	**–**	**2,040**
As at 31 December 2020	**41,221**	**39,638**	**227**	**3,762**	**(7,743)**	**(58,198)**	**18,907**

The notes on pages 35 to 64 form part of the financial statements.

Company Cash Flow Statement

For the year ended 31 December 2020

	2020 US$'000	2019 US$'000
Operating activities		
Loss before taxation	(326)	(840)
Finance income	(273)	(356)
Adjustments for:		
Depreciation of property, plant and equipment	39	10
Impairment of investments in subsidiary undertakings	–	152
Impairment of financial assets	–	201
Share-based payments	85	83
Unrealised foreign exchange	113	79
Operating cash outflow before movements in working capital	(362)	(671)
Decrease/(increase) in trade and other receivables	54	(31)
Increase in trade and other payables	102	65
Net cash used in operating activities	(206)	(637)
Investing activities		
Loans to subsidiary undertakings	(1,390)	(1,040)
Proceeds on disposal of investments	–	200
Net cash used in investing activities	(1,390)	(840)
Financing activities		
Proceeds from the issue of shares	2,934	2,035
Expenses of issue of shares	(144)	(75)
Repayment of lease liabilities	(35)	(13)
Net cash generated from financing activities	2,755	1,947
Net increase in cash and cash equivalents	1,159	470
Cash and cash equivalents at beginning of year	1,070	598
Effect of foreign exchange rate changes	16	2
Cash and cash equivalents at end of year	2,245	1,070

The notes on pages 35 to 64 form part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2020

1. Corporate Information

On 3 August 2020, the Company, formerly known as Rose Petroleum plc, changed its name to Zephyr Energy plc.

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

The nature of the Group's operations and its principal activity is the exploration and development of O&G resources.

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 IFRS 3 – *Definition of a business*
- Amendments to IAS 1 and IAS 8 – *Definition of material*
- Amendments to IFRS 9, IAS 39 and IFRS 7 – *Interest rate benchmark reform*
- Amendments to references to the conceptual framework in IFRS standards

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 adopted by the EU) have not been early adopted by the Group for the year ended 31 December 2020. 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 3 – *Reference to the conceptual framework*
- Amendments to IAS 16 – *Property, plant and equipment – proceeds before intended use*
- Amendments to IAS 37 – *Onerous contracts – cost of fulfilling a contract*
- Amendment to IFRS 16 – *Covid-19 related rent concessions*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest rate benchmark reform phase 2*
- Amendments to IAS 1 and IFRS practice statement 2 – *Disclosure of accounting policies*
- Amendments to IAS 8 – *Definition of accounting estimates*
- Annual improvements to IFRS standards 2018-2020

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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies

Basis of preparation

The financial statements have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, other than certain financial assets and liabilities which are stated at their 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$") as the Group's business is influenced by pricing in international commodity markets which are primarily US$ based. 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 financial statements.

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

Judgements made by the Directors in the application of these accounting policies that have significant impact on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in note 4.

Going concern

The Directors have prepared cash flow forecasts for the Group for the period to June 2022 based on their assessment of both the discretionary and the non-discretionary cash requirements of the Group during this period. These cash flow forecasts include its normal operating costs for operations together with all committed development expenditure. The forecasts also take account of the Company's recent fundraise and the near-term CAPEX requirements for, and the forecast revenues from, the Paradox project, the Williston project and the Continental acreage, and they indicate that the Group currently has sufficient cash resources to service these costs over the forecast period.

The Group has no bank facilities and has been meeting its working capital requirements from cash resources. At the year end, the Group had cash and cash equivalents amounting to US$3.9 million (2019: US$1.1 million).

The Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

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 consolidated 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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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.

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.

Intangible 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 on-going 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.

Exploration and evaluation costs

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 less accumulated amortisation, subject to meeting a pool-wide impairment test in accordance with the accounting policy for impairment of E&E assets set out below. Such E&E assets are amortised on a unit-of-production basis over the life of the commercial reserves of the pool to which they relate.

Impairment of intangible 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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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 cash flow 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.

The Group presents grants receivable by deducting the funds received from the carrying value of the Group's intangible exploration and evaluation assets.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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
Right-of-use assets	straight-line over the shorter of the lease term and the useful life of the 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.

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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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 share of assets and liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

The Company accounts for its own assets, liabilities and cash flows 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.

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.

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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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.

For the purpose of presenting company and consolidated financial statements, the assets and liabilities of the Company, and the Group's operations 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, if any, 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, if any, 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 consolidated 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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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.

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 cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

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

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to cash flows 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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Trade and other receivables

Trade and other receivables 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.

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.

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.

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 cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

Decommissioning

Provision for decommissioning is recognised in full when the related assets are installed. The decommissioning provision 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 thus charged to the income statement in accordance with the Group's policy for depreciation of property, plant and equipment or for impairment of intangible exploration and evaluation assets, depending upon the stage of the assets at the time of retirement. Periodic charges for changes in the net present value of the decommissioning provision arising from discounting are included in finance costs.

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. 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 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.

Fair value of option grants is measured by use of 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.

Development expenses

Costs incurred by the Group in respect of the assessment and pursuit of potential new projects are expensed directly to the income statement and included as development expenses. Material expenses relating to a specific project are disclosed on a separate line in the income statement.

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.

Notes to the Financial Statements

(continued)

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 on-going 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:

Recoverability of intangible exploration and evaluation assets – Group

Determining whether an exploration and evaluation asset is impaired requires an assessment of whether there are any indicators of impairment, including by reference to specific impairment indicators prescribed in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. If there is any indication of potential impairment, an impairment test is required based on the recoverable amount of the asset. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

During the year ended 31 December 2020, the Group completed its restructure of the Paradox project and is now focused on a core acreage position of circa 25,000 acres, whilst also recognising further exploration potential in eleven shallower reservoir targets which could add even further value to the project over time. At 31 December 2020, the Group had drilled its first vertical well which was designed to facilitate a reuse which will allow the potential for future drilling of a horizontal appraisal lateral from the wellbore at significantly reduced cost to the Group. The Board believes that the restructured project is a highly attractive investment opportunity and ensures that the project will remain a central part of the Group's future focus and activity.

At 31 December 2020, the Directors considered the indicators of impairment as set out in IFRS 6 and have satisfied themselves that there was no requirement to perform an impairment test.

The carrying amount of intangible exploration and evaluation assets at the balance sheet date was US$13.9 million (2019: US$13.5 million) and the Directors did not consider that it was appropriate to make a provision for impairment in respect of these assets at 31 December 2020.

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. However, there is a risk that the indirectly held subsidiaries will not commence revenue-generating activities and that the carrying amount of the Company's investment will, therefore, exceed the recoverable amount.

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"). Having considered multiple scenarios on the manner, timing, quantum and probability of recovery of the receivables, the Board do not consider that any further provision is required and, therefore, subject to the recognition of exchange differences, a cumulative lifetime ECL of US$32.1 million has been recognised at 31 December 2020 (2019: US$31.2 million).

Notes to the Financial Statements

(continued)

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

The calculation of the allowance for lifetime ECL requires a significant degree of estimation and judgement, in particular in determining the probability weighted likely outcome for each scenario considered. The Directors assessment of ECL included repayment through future cash flows over time (which are inherently difficult to forecast for the Group at its current stage of development), the amount that could be realised through an immediate sale of the subsidiary undertakings or its underlying assets and the loss that would arise should commercial extraction not occur. The Directors' assessment of repayment through future cash flows included a scenario where the loan was not recovered in full. The Directors' allocated a probability weighting of 65% to scenarios where recovery would be repayment over time, 10% to the scenario where immediate sale of the subsidiary undertaking or its underlying assets was contemplated, and 25% to the scenario where no extraction would occur.

At 31 December 2020, the Company has total loans in its directly held subsidiaries of US$49.0 million (2019: US$46.4 million). See note 15.

The outcome of any assessment is materially sensitive to the key assumptions inherent in the calculation and any downside in these estimates would result in an additional impairment of the underlying loans.

5. Segmental Information

The Group has one main operating segment, the exploration and development of O&G resources, which is primarily based in U.S. As a result, no segmental information is presented.

6. Development Expenses

	2020 US$'000	2019 US$'000
U.S.	135	206

Development expenses represent material expenditure incurred by the Group in respect of the assessment and pursuit of specific projects.

7. Other Income

	2020 US$'000	2019 US$'000
COVID-19 business rates grant	13	–

The Group was in receipt of the business rates grant introduced by the UK government to provide financial support to businesses during the COVID-19 pandemic. No further support was received or required by the Group.

Notes to the Financial Statements

(continued)

8. Loss Before Taxation

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

	2020 US$'000	2019 US$'000
Other income	(13)	–
Impairment of receivables	–	201
Depreciation of property, plant and equipment	5	5
Depreciation of right-of-use assets	44	30
Staff costs excluding share-based payments	649	747
Share-based payments	79	100
Expense relating to short-term leases	–	19
Net foreign exchange losses	705	819

9. Auditor's Remuneration

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

	2020 US$'000	2019 US$'000
Audit of these financial statements	49	46
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	5	5
Taxation services – compliance	3	11
	57	62

10. Staff Costs

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

	Group		Company	
	2020 Number	2019 Number	2020 Number	2019 Number
Office and management	2	2	1	2
Operations	1	1	1	1
	3	3	2	3

Their aggregate remuneration comprised:

	Group		Company	
	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
Wages and salaries	673	688	317	553
Social security costs	42	73	36	64
Other pension costs	30	30	15	30
Share-based payments	51	62	33	62
	796[1]	853[1]	401	709

[1] A proportion of staff costs were deferred during the year. See note 27.

Notes to the Financial Statements

(continued)

10. Staff Costs (continued)

Included within Group wages and salaries is US$0.1 million (2019: US$0.04 million) capitalised to intangible exploration and evaluation assets.

Included within Company wages and salaries is US$0.2 million (2019: US$0.2 million) which was recharged to other Group entities.

Included within both Group and Company wages and salaries for the year ended 31 December 2019 were the sums of US$0.06 million in respect of pay in lieu of notice and US$0.03 million in respect of an ex-gratia payment made to a former Director.

The remuneration of certain Company Directors is paid through a subsidiary entity and is therefore not included in the Company only aggregate remuneration.

Refer to note 27 for details regarding the remuneration of the highest paid Director.

11. Taxation

	2020 US$'000	2019 US$'000
Current tax:		
Current year	–	–
Deferred tax:		
Origination and reversal of temporary differences	–	–
Tax charge on loss for the year	–	–

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

	2020 US$'000	2019 US$'000
Loss before tax	(2,344)	(3,011)
Loss multiplied by the rate of corporation tax for UK companies of 19% (2019: 19%)	(445)	(572)
Effects of:		
Expenses not deductible for tax purposes	–	38
Share-based payments	15	19
Unrelieved tax losses carried forward	430	515
Tax charge on loss for the year	–	–

There has been no impact due to changes in UK taxation rates during the years reported.

Unrelieved tax losses carried forward, as detailed in note 20, 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.

Notes to the Financial Statements

(continued)

12. Loss Per Ordinary Share

Basic loss per Ordinary Share is calculated by dividing the net loss for the year attributable to owners of the parent company by the weighted average number of Ordinary Shares in issue during the year. The calculation of the basic and diluted loss per Ordinary Share is based on the following data:

	2020 US$'000	Continuing operations 2019 US$'000	Continuing and discontinued operations 2019 US$'000
Losses			
Losses for the purpose of basic loss per Ordinary Share being net loss attributable to owners of the parent company	**(2,344)**	(3,011)	(1,024)
	Number '000	Number '000	Number '000
Number of shares			
Weighted average number of shares for the purpose of basic loss per Ordinary Share	**357,951**	172,550	172,550
Loss per Ordinary Share			
Basic and diluted, cents per share	**(0.66)**	(1.74)	(0.59)

Due to the losses incurred from continuing operations in the years reported, there is no dilutive effect from the existing share options, share based compensation plan or warrants.

13. Intangible Assets

	Exploration and evaluation assets US$'000
Cost	
At 1 January 2019	18,918
Additions	401
Disposals – discontinued operations	(5,770)
At 1 January 2020	13,549
Additions	2,165
Grant funds received	(1,800)
At 31 December 2020	**13,914**
Impairment	
At 1 January 2019	5,770
Disposals – discontinued operations	(5,770)
At 1 January 2020 and 31 December 2020	–
Carrying amount	
At 31 December 2020	**13,914**
At 31 December 2019	13,549
At 1 January 2019	13,148

Notes to the Financial Statements

(continued)

13. Intangible Assets (continued)

Joint Operation

Rockies Standard Agreement

In March 2014, the Group signed an agreement under which its subsidiary, Rose Petroleum (Utah) LLC ("Rose Utah"), acquired the right to commence earning into a 75 per cent working interest of certain oil, gas and hydrocarbon leases in Grand and Emery Counties, Utah, from Rockies Standard Oil Company LLC ("RSOC"), which retained the remaining 25 per cent working interest.

In October 2019, the Group signed a new agreement with RSOC which gave it an immediate 75 per cent working interest and operatorship of key acreage. This agreement replaced the earn-in structure of the original agreement and gave the Group immediate ownership of the highest potential 12,920 lease acres. The Group terminated its remaining farm-in rights over less prospective acreage and reassigned those rights back to RSOC.

In February 2020, the Group announced that a sub-set of leases, located within the project core, had been extended for a further two years and added back into the Group's portfolio of leases with the result that the Group has been granted regulatory approval by the U.S. Bureau of Land Management ("BLM") for two-year lease extensions on circa 11,300 acres within the core of its project area. The Group is now focused on a core acreage position of circa 25,000 acres, within the Paradox basin.

The Group retains its obligations under the original earn-in agreement to carry RSOC for a 25 per cent working interest on the first well drilled on the project and has also agreed to carry RSOC for a 25 per cent working interest for the acquisition of specified targeted leases in and around the core acreage area, in aggregate, up to a total of US$0.5 million. It is the current view of both the Group and RSOC that the final figure will be considerably lower and any payments would be incurred over an extended period of time.

The project is not conducted within a separate legal entity and the Group is required to operate within the terms of the agreement. Therefore, costs incurred by the Group under the RSOC agreement have been accounted for as a joint operation, in accordance with the requirements of IFRS 11 *Joint arrangements*. Accordingly, the intangible exploration and evaluation assets presented above represents the Group's own asset in respect of the project and comprises costs capitalised in accordance with the Group's accounting policy on intangible exploration and evaluation assets.

U.S. Department of Energy Funding

During 2020, the Group worked with a project team led by the EGI on a project sponsored by the DOE. In September 2020, the Group announced that the EGI had selected the Group's acreage in the Paradox Basin on which to drill a vertical stratigraphic research well, the purpose of which, was to gather data to improve the understanding of the Paradox Basin play.

On 5 October 2020, the Group entered into an agreement with the EGI under which the EGI would fund US$2.0 million towards the planned stratigraphic research well. The well, State 16-2, was designed to facilitate re-use which will allow the potential for future drilling of a horizontal appraisal lateral from the wellbore and, given the commercial benefits of potential well re-use for the Group, the Group agreed to fund up to US$1.0 million of incremental costs, should the total cost of the well go above the EGI's US$2.0 million committed funding.

On 2 December 2020, the Group announced that it had received the regulatory approvals required to proceed with the spud of the State 16-2 and this was completed by 31 December 2020.

Under the terms of the agreement, the Group is the operator of the vertical well and is responsible for all planning and drilling activity. The Group and its 25 per cent partner RSOC continue to be the sole working interest owners in the leasehold and of the vertical well.

During the year, the Group had received US$1.8 million of funding from the EGI as described above. In accordance with IAS 20, the carrying value of the Group's intangible exploration and evaluation assets have been presented net of the funds received. The remaining grant funding of US$0.2 million was received in February 2021.

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14. Property, Plant and Equipment

	Group			Company		
	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 2019	159	–	159	22	–	22
Recognition of right-of-use assets on initial application of IFRS 16	–	35	35	–	–	–
Additions – right-of-use assets	–	55	55	–	55	55
At 1 January 2020	159	90	249	22	55	77
Disposal	(39)	(34)	(73)	–	–	–
Exchange differences	9	1	10	1	2	3
At 31 December 2020	**129**	**57**	**186**	**23**	**57**	**80**
Accumulated depreciation						
At 1 January 2019	137	–	137	–	–	–
Charge for the year	5	30	35	5	5	10
At 1 January 2020	142	30	172	5	5	10
Charge for the year	5	44	49	5	34	39
Disposal	(39)	(34)	(73)	–	–	–
Exchange differences	9	1	10	1	2	3
At 31 December 2020	**117**	**41**	**158**	**11**	**41**	**52**
Carrying amount						
At 31 December 2020	**12**	**16**	**28**	**12**	**16**	**28**
At 31 December 2019	17	60	77	17	50	67
At 1 January 2019	22	–	22	22	–	22

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

	2020 US$'000	2019 US$'000
Administrative expenses	**49**	35

Notes to the Financial Statements

(continued)

15. Investments

	Group		Company		
	Investment carried at fair value US$'000	Investment carried at fair value US$'000	Shares in subsidiary undertakings US$'000	Loans to subsidiary undertakings US$'000	Total US$'000
Cost					
At 1 January 2019	464	200	4,962	43,211	48,373
Additions	–	–	–	1,397	1,397
Disposals – continuing operations	(200)	(200)	–	–	(200)
Disposals – discontinued operations	(302)	–	–	–	–
Change in fair value	27	–	–	–	–
Capital contribution	–	–	–	18	18
Exchange differences	11	–	199	1,744	1,943
At 1 January 2020	–	–	5,161	46,370	51,531
Additions	–	–	–	1,663	1,663
Reversal of capital contribution	–	–	–	(411)	(411)
Exchange differences	–	–	148	1,366	1,514
At 31 December 2020	**–**	**–**	**5,309**	**48,988**	**54,297**
Impairment					
At 1 January 2019	–	–	4,592	30,187	34,779
Impairment charge/(reversal)	–	–	370	(218)	152
Exchange differences	–	–	198	1,201	1,399
At 1 January 2020	–	–	5,160	31,170	36,330
Exchange differences	–	–	149	895	1,044
At 31 December 2020	**–**	**–**	**5,309**	**32,065**	**37,374**
Carrying amount					
At 31 December 2020	**–**	**–**	**–**	**16,923**	**16,923**
At 31 December 2019	–	–	–	15,201	15,201

Company

The Company has outstanding loans made to its subsidiaries which incur interest at a commercial rate, according to the Group's inter-company loan policy. The loans are due for repayment once the subsidiaries commence revenue-generating activities which is not anticipated 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 cash flows arising to the Company from its subsidiary entities and consider that no additional provision (2019: US$0.15 million) should be recognised in the period.

Notes to the Financial Statements

(continued)

15. Investments (continued)

The Company had investments in the following subsidiary undertakings as at 31 December 2020:

	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%	Holding company
Rose Petroleum (UK) Limited	UK	100%	100%	Holding company
Indirectly owned:				
Minerales VANE S.A. de C.V.	Mexico	100%	100%	Dormant
Rose Petroleum (US) LLC	U.S.	100%	100%	Holding company
Rose Petroleum (Utah) LLC	U.S.	100%	100%	Exploration

Since the year end a new company, Zephyr Bakken LLC was incorporated in the U.S.. This is an exploration company through which the Williston Basin project will be accounted for.

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

The registered office address for Minerales VANE S.A. de C.V. is Humboldt No. 121, Colonia del Valle, C.P. 78200, San Luis Potosi, S.L.P.

The registered office address for Rose Petroleum (US) LLC and Rose Petroleum (Utah) LLC is 1 Shipwright Street, Annapolis, MD 21401.

16. Trade and Other Receivables

	Group		Company	
	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
VAT recoverable	**28**	29	**22**	29
Other receivables	**60**	2	**–**	–
Prepayments	**47**	81	**13**	60
	135	112	**35**	89

The Group has an outstanding amount due for US$0.2million in respect of a loan made to Magellan to facilitate completion of the sale of the Group's Mexico assets. The loan is non-interest bearing and due for repayment when Magellan recovers indirect tax incurred in Mexico upon acquisition of the Group's ore processing mill in the year ended 31 December 2017. In accordance with IFRS 9 *Financial instruments*, whilst the Board intends to pursue repayment of the loan in full, it has assessed expected credit losses ("ECL") and, having considered the current trading position of Magellan within Mexico, a cumulative lifetime ECL of US$ 0.2 million continues to be recognised at 31 December 2020 (2019: US$0.2 million).

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.

Notes to the Financial Statements

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17. Cash and Cash Equivalents

Cash and cash equivalents held by the Group and the Company as at 31 December 2020 were US$3.9 million and US$2.2 million respectively (2019: US$1.1 million, US$1.1 million). The Directors consider that the carrying amount of these assets approximate to their fair value.

18. Trade and Other Payables

	Group		Company	
	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
Trade payables	1,949	84	55	73
Taxes and social security	16	17	16	17
Other payables	124	115	–	1
Accruals	375	226	245	122
	2,464	442	316	213

Trade payables and accruals principally comprise amounts outstanding for trade purchases and on-going costs.

Other payables primarily represent the potential liability due to the German licencing authorities in respect of the 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.

19. Lease Liabilities

	Group		Company	
	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
Current	8	45	8	35
Non-current	–	8	–	8
	8	53	8	43

	Group		Company	
	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
Maturity analysis				
Amounts due within one year	8	45	8	35
Amounts due in 2-5 years	–	8	–	8
	8	53	8	43

The Group does not face a significant liquidity risk with regard to lease liabilities.

Notes to the Financial Statements

(continued)

20. Deferred Tax

There are unrecognised deferred tax assets in relation to:

	2020 US$'000	2019 US$'000
UK tax losses	5,622	5,372
U.S. tax losses	9,120	7,173
Mexican tax losses	397	337
	15,139	12,882

Reductions to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 on 6 September 2016 which would reduce the main rate to 17% from 1 April 2020. However, in a pre-election manifesto Boris Johnson pledged to put the reduction from 19% to 17% on hold if the Conservatives won the election and having done so, the freeze in rate was substantively enacted during the 2020 Budget. A deferred tax asset has not been provided in respect of these losses as there is currently insufficient evidence that the asset will be recoverable in the foreseeable future.

21. Provisions

	Group Decommissioning	
	2020 US$'000	2019 US$'000
At 1 January	57	–
Provision utilised	(57)	–
Additional provision	7	57
At 31 December	7	57
Non-current provision	7	57

In accordance with the Group's environmental policy and applicable legal requirements, the Group expects to restore sites where it has carried on activities, following final conclusion of those activities.

Decommissioning of the State 16-42 well was completed in November 2020 and no further obligations are expected in relation to this well.

The Group has provided for decommissioning of the State 16-2 well which is not expected to take place within the next twelve months.

Notes to the Financial Statements

(continued)

22. Share Capital

	Group and Company			
	2020		2019	
	Number '000	US$'000	Number '000	US$'000
Authorised				
Ordinary Shares of 0.1p each	7,779,297	10,620	7,779,297	10,323
Deferred Shares of 9.9p each	227,753	30,781	227,753	29,921
	8,007,050	41,401	8,007,050	40,244
Allotted, issued and fully paid				
Ordinary Shares of 0.1p each	696,202	916	287,112	383
Deferred Shares of 9.9p each	227,753	40,305	227,753	40,305
	923,955	41,221	514,865	40,688

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, 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.

Issued Ordinary Share Capital

On 23 October 2020, the Company issued 200,000,000 Ordinary Shares of 0.1p each at a price of 0.55p per share, raising gross proceeds of US$1.4 million (£1.1 million).

On 3 November 2020, the Company issued 209,090,909 Ordinary Shares of 0.1p each at a price of 0.55p per share, raising gross proceeds of US$1.5 million (£1.15 million).

	Ordinary Shares Number '000	Deferred Shares Number '000
At 1 January 2019	143,414	227,753
Allotment of shares	143,698	–
At 1 January 2020	287,112	227,753
Allotment of shares	409,090	–
At 31 December 2020	696,202	227,753

Notes to the Financial Statements

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23. 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 issued warrants to subscribe for 56,818,182 new Ordinary Shares, representing one warrant for every two placing shares. The warrants are exercisable at a price of 2 pence per Ordinary Share for a period of two years from the date of issue.

	Warrants Number '000
At 1 January 2019	34,341
Granted	56,818
At 1 January 2020	91,159
Lapsed	(34,341)
At 31 December 2020	**56,818**

The fair value of the warrants granted to subscribers during the year was US$ nil (2019: US$0.2 million), and the fair value of warrants which lapsed during the year was US$0.3 million (2019: US$ nil) and this has been recognised as a movement between equity reserves.

24. 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 warrant reserve represents accumulated charges made in respect of the issue of warrants to Shareholders. See note 23.

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 losses.

25. 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.

On 29 May 2020, the Company issued 32 million share options with an exercise price of 0.6 pence per Ordinary Share, which vest in three equal tranches on 29 May 2021, 2022 and 2023. The options have no service or performance conditions attached and can be exercised up until the tenth anniversary of the grant date.

On 29 May 2020, the Company issued 2,717,000 nil-cost options to its Non-Executive Directors to compensate them for salaries deferred in the year ended December 2019. The options are exercisable at the Ordinary Share's nominal value of 0.1 pence and the number of options issued was based upon the emoluments deferred, divided by 1.1 pence, being the price at which Ordinary Shares were issued in the Company's placing in November 2019. The options can be exercised for a period of seven years from the date of issue. If a Non-Executive Director leaves the Company, the options can be exercised within three years of the date of leaving unless otherwise agreed with the Company.

Notes to the Financial Statements

(continued)

25. Share-Based Payments (continued)

At 31 December 2020, 45.4 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:

	2020		2019	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Outstanding at 1 January	**11,267**	**25.75p**	11,267	25.75p
Granted	**34,717**	**0.56p**	–	–
Forfeited	**(550)**	**0.73p**	–	–
Outstanding at 31 December	**45,434**	**5.93**	11,267	25.75p
Exercisable at 31 December	**10,800**	**22.32p**	5,300	49.4p

The options outstanding at 31 December 2020 had an estimated weighted average remaining contractual life of 9 years (2019: 8 years), with an exercise price ranging between 0.1p and 342.5p.

The fair value of the options 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 32,000,000 Share options
Exercise price (pence)	0.6p
Expected volatility (%)	87-95
Expected life (years)	5.5-6.5
Risk free rates (%)	-1.84-1.06
Expected dividends	–
Performance condition	None

	Grants in year 2,717,000 Nil-cost share options
Exercise price (pence)	0.1p
Expected volatility (%)	77
Expected life (years)	3.5
Risk free rates (%)	-3.98
Expected dividends	–
Performance condition	None

Notes to the Financial Statements

(continued)

25. Share-Based Payments (continued)

Expected volatility was calculated considering Zephyr Energy plc share price movements over a period commensurate with the expected term immediately prior to the grant date.

The fair value of the options granted during the year was US$137,000 (2019: US$ nil) in respect of the share options and US$17,000 (2019: US$ nil) in respect of the nil-cost options.

In the year ended 31 December 2020, the Company recognised a total expense of US$79,000 (2019: US$100,000) in respect of share options, being US$62,000 (2019: US$100,000) in respect of the Share Option Plan and US$17,000 (2019: nil) in respect of the nil-cost options.

Warrants

On 22 November 2019, the Company issued 2,727,273 warrants to Turner Pope Investments (“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 1.32 pence per share and are exercisable at any time until 22 November 2022. No warrants had been exercised at 31 December 2020.

On 3 November 2020, the Company issued 70,201,873 warrants to TPI, in respect of broker services provided by them in relation to the placing of the Company’s Ordinary Shares. 19,868,455 of the warrants permit the holder to subscribe for one new Ordinary Share at a price of 0.55 pence per Ordinary Share, the remaining 50,333,418 warrants permit the holder to subscribe for one Ordinary Share at a price of 0.6875 pence per share and all warrants are exercisable at any time for a period of two years from issue.

The fair value of the services provided to the Company can be measured directly and, therefore, the fair value of the warrants issued during the year to TPI has been made with reference to the terms of the agreement which stated that the number of warrants issued should be based on a percentage of the equity proceeds raised by TPI. 19,868,455 warrants were issued on the basis of 6 per cent of the equity proceeds raised by TPI and 50,333,418 were issued on the basis of 19 per cent of the equity proceeds raised by TPI.

The fair value of the warrants issued during the year was US$0.6 million (2019: US$ 0.05 million).

During the year, 5,163,461 warrants issued in previous years lapsed without being exercised. The fair value of the warrants previously recognised was US$0.25 million and this has been recognised as a transfer between equity reserves.

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, there is no impact on the Group’s income statement during the year ended 31 December 2020.

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 2019	5,592
Granted	2,727
Lapsed	(428)
At 1 January 2020	7,891
Granted	70,202
Lapsed	(5,164)
At 31 December 2020	**72,929**

Notes to the Financial Statements

(continued)

26. 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 foreign currency risk, credit risk, liquidity risk and cash flow interest rate risk.

The policies for managing these risks are regularly reviewed and agreed by the Board.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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 remains unchanged from 2019.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group is not subject to externally imposed capital requirements.

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	
	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
Financial assets measured at amortised cost				
Cash and cash equivalents	3,940	1,084	2,245	1,070
Other receivables	60	2	–	–
Loans to subsidiary undertakings	–	–	16,923	15,201
	4,000	1,086	19,168	16,271

	Group		Company	
	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
Financial liabilities measured at amortised cost				
Trade payables	1,949	84	55	73
Other payables	124	115	–	1
Accruals	375	226	245	122
Lease liabilities	8	53	8	43
	2,456	478	308	239

Notes to the Financial Statements

(continued)

26. Financial Instruments (continued)

Fair Value of Financial Instruments

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

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	
	2020 US$'000	2019 US$'000	2020 US$'000	2019 US$'000
GBP	**124**	114	**189**	535

Foreign currency sensitivity analysis

The functional currencies of the Group are GBP and US$. 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 five per cent. A movement of five per cent 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 five per cent change in foreign currency rates.

The table below details the Group's sensitivity to a five per cent decrease in US$ against GBP. A positive number below indicates an increase in profit where US$ strengthens five per cent against GBP. For a five per cent 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 of the restatement of GBP denominated intercompany loans in the Group's U.S, subsidiaries.

	2020 US$'000	2019 US$'000
Income statement	**(1,246)**	(1,090)

Interest Rate Risk Management

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

The Group has no substantial exposure to fluctuating interest rates on its liabilities. The Group has no liabilities which attract interest charges at 31 December 2020.

Notes to the Financial Statements

(continued)

26. Financial Instruments (continued)

Liquidity Risk Management

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 cash flow.

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 Group does not have any significant credit risk exposure on trade and other receivables.

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 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.

27. Related Party Transactions

Amounts Due From Subsidiaries

Group

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.

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:

	2020		2019	
	Transactions in the year US$'000	Amounts owing US$'000	Transactions in the year US$'000	Amounts owing US$'000
Loans	1,061	36,720	386	34,662
Management charges	309	5,613	630	5,137
Interest (1.75%)	273	6,009	356	5,558
Capital contribution	(396)	646	18	1,013

Notes to the Financial Statements

(continued)

27. 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*.

	2020		2019	
	Purchase of services US$'000	Amounts owing US$'000	Purchase of services US$'000	Amounts owing US$'000
Short-term employee benefits	657	148	622	125
Ex-gratia payment	–	–	32	–
Consultancy payments	–	–	20	–
Post-employment benefits	28	13	26	9
Share-based payments	60	–	59	–
	745	161	759	134

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' Emoluments

Remuneration paid to Directors during the year was as follows:

	2020			
	Salaries[1] taken US$'000	Salaries[1] not taken US$'000	Pension US$'000	Total US$'000
Executive Directors				
JC Harrington	282	74	15	371
CJ Eadie	120	30	13	163
Non-Executive Directors				
RL Grant	51	15	–	66
TH Reynolds	35	11	–	46
GB Stein	35	11	–	46
	523	141	28	692

[1] Salaries include benefits-in-kind

On 29 May 2020, the Company issued nil-cost options to its Non-Executive Directors to compensate them for salaries deferred in the year ended 31 December 2019. The Company issued 2,717,000 options which are exercisable at the Ordinary Share's nominal value of 0.1 pence and were calculated based on the emoluments deferred, divided by 1.1 pence, being the price at which Ordinary Shares were issued in the Company's placing in November 2019. The options can be exercised for a period of seven years from the date of issue. If a Non-Executive Director leaves the Company, the options can be exercised within three years of the date of leaving unless otherwise agreed with the Company. No options had been exercised at 31 December 2020. See note 25.

Notes to the Financial Statements

(continued)

27. Related Party Transactions (continued)

The options were issued as follows:

	Options Number '000
RL Grant	1,353
TH Reynolds	818
GB Stein	546
	2,717

It is the Company's intention to issue further nil-cost options to its Non-Executive Directors in H1 2021 to compensate them for salaries deferred in the year ended 31 December 2020.

	2019					
	Salaries[1] taken US$'000	Salaries[1] not taken US$'000	Consultancy US$'000	Ex-gratia US$'000	Pension US$'000	Total US$'000
Executive Directors						
JC Harrington	54[2]	80[2]	–	–	–	134
MC Idiens	197[3]	–	–	32	13	242
CJ Eadie	137	–	–	–	13	150
KB Scott		–	4[4]	–	–	4
Non-Executive Directors						
PE Jeffcock	17[5]	–	–	–	–	17
RL Grant	11[6]	19[6]	–	–	–	30
TH Reynolds	20[7]	12[7]	–	–	–	32
GB Stein	8[8]	7[8]	–	–	–	15
	444	118	4	32	26	624

(1) Salaries include benefits-in-kind

(2) Salary from the date of appointment on 24 May 2019. Salary not taken was paid in 2020 and 2021

(3) Salary to the date of resignation on 30 August 2019, including pay in lieu of notice

(4) Salary to the date of resignation on 23 April 2019

(5) Salary to the date of resignation on 11 April 2019

(6) Salary from the date of appointment on 27 June 2019. The salary not taken was settled by the issue of nil-cost options in 2020

(7) Salary from the date of appointment on 23 April 2019. The salary not taken was settled by the issue of nil-cost options in 2020

(8) Salary from the date of appointment on 3 September 2019. The salary not taken was settled by the issue of nil-cost options in 2020

The remuneration of Directors and key executives is decided by the remuneration committee having regard to comparable market statistics.

Directors' share options are detailed in the Directors Report.

Directors' pensions

	2020 No	2019 No
The number of Directors to whom retirement benefits are accruing under money purchase schemes was	1	2

Notes to the Financial Statements

(continued)

27. Related Party Transactions (continued)

Directors' participation in Fundraise

On 16 October 2020, the Company announced a Placing to raise £2.25 million by the issue, in two tranches, of 409,090,909 new Ordinary Shares of 0.1p each at a price of 0.55p per Ordinary Share ("Placing Price"). Several Directors participated in the Placing as follows:

- OCE subscribed for 66,000,000 new Ordinary Shares, equivalent to £363,000 at the Placing Price. Rick Grant and Colin Harrington are both Shareholders and Directors of OCE, and Colin Harrington is indirectly the controlling Shareholder of OCE.
- Chris Eadie and Gordon Stein also each subscribed for 1,850,000 new Ordinary Shares, equivalent to a total of £20,350 at the Placing Price.

28. Post Balance Sheet Events

Equity Fundraise

In March 2021, the Company raised gross proceeds of US$13.6 million (£10 million) by way of a placing of 500 million Ordinary Shares of 0.1p each at a price of 2 pence per Ordinary Share.

Williston Project

In March 2021, the Group completed the purchase of the Williston project at an initial cost of US$350,000. In addition, the Company made a payment of approximately US$3.7 million to the project Operator for historical CAPEX obligations on the project.

The purchase resulted in the acquisition of non-operated working interests, ranging from 16.8% to 37.2% in five wells (one producing well and four drilled but uncompleted wells), in Mountrail County, North Dakota, U.S. The wells are operated by Whiting Petroleum, an active and highly experienced operator in the Williston Basin.

The project provides the Group with low-risk oil production from five already drilled wells which are expected to generate substantial cash flows that can be utilised across the Group.

Zephyr is now responsible for payment of future CAPEX obligations related to the Williston project as the DUCS are completed and tied in. These costs are estimated to be approximately US$4.2 million.

Continental acreage

In May 2021, the Group announced the acquisition of the Continental acreage, which gave the Group a working interest in a drilling spacing unit operated by Continental Resources Inc., the largest operator in the Williston Basin. The Continental acreage is located approximately ten miles from the Group's Williston project, in a highly attractive part of the Basin. The cost of the acreage acquired by Zephyr was approximately US$170,000 and was paid for from the Group's existing cash resources. Zephyr is now responsible for payment of future CAPEX obligations in respect of the first two wells. These costs are estimated to be approximately US$140,000.

Important information regarding the Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000 (as amended). If you have recently sold or transferred all of your shares in Zephyr Energy Plc, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer, so they can pass these documents to the person who now holds the shares.

In the lead up to the annual general meeting, we are closely monitoring the impact of the COVID-19 virus in the United Kingdom.

Our preference is to welcome Shareholders in person to our 2021 Annual General Meeting, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. However, with consideration to the Government's current response to the COVID-19 pandemic and given the uncertainty around potentially tighter restrictions due to the COVID-19 pandemic, which could change at short notice, it cannot be known with certainty whether (or how many) Shareholders will be able to attend the Annual General Meeting. We are committed to protecting the health and well-being of our Shareholders and of the general public and therefore, we strongly encourage all Shareholders to appoint the chairman of the Annual General Meeting as their proxy. This will ensure that your vote will be counted if ultimately you (or any other proxy you might otherwise appoint) are not able to attend the Annual General Meeting. Shareholders are encouraged to submit a form of proxy ("Form of Proxy") by following the instructions in the Notes to the Annual General Meeting notice. Proxy votes must be received by Link Group not less than 48 hours before the time appointed for the meeting. Shareholders are urged to appoint the Chair of the meeting as his or her proxy.

You will not receive a hard copy form of proxy for the 2021 AGM in the post. Instead, you will be able to vote electronically using the link www.signalshares.com. You will need to log into your account or register if you have not previously done so. To register you will need your investor code, which is detailed on your share certificate or available from our registrar, Link Group.

If you need help with voting online, please contact our Registrar, Link Group, on 0371 664 0391 if calling from the United Kingdom, or +44 (0) 371 664 0391 if calling from outside of the United Kingdom or email Link at shareholdderenquiries@linkgroup.co.uk. Calls will be charged at local rates. Calls made outside the United Kingdom will be charged at the applicable international rate. The lines are open between 09:00 and 17:30 Monday to Friday, excluding public holidays in England and Wales.

The Board understands that beyond voting on the formal business of the meeting, the Annual General Meeting also serves as a forum for Shareholders to raise questions and comments to the Board. Therefore, if Shareholders do have any questions or comments relating to the business of the meeting that they would like to ask the Board then they are asked to submit those questions in writing via email to chris.eadie@zephyrplc.com no later than 11.00 a.m. on Monday 28 June 2021. The Board will publish a summary of any questions received which are of common interest, together with a written response on the Company's website as soon as practicable after the conclusion of the Annual General Meeting. Only questions from registered Shareholders of the Company will be accepted.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of the Company will be held at the offices of Memery Crystal LLP, 165 Fleet Street, London, EC4A 2DY on 30 June 2021 at 11.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, of which Resolutions 1 to 5 will be proposed as ordinary resolutions and Resolutions 6 will be proposed as a special resolution:

Ordinary Resolutions

1. To receive and adopt the annual report and accounts for the year ended 31 December 2020, together with the reports of the Directors and the auditor thereon.

2. To re-appoint RSM UK Audit LLP as auditor to act as such until the conclusion of the next annual general meeting of the Company at which the requirements of section 437 of the Companies Act 2006 ("**CA 2006**") are complied with and to authorise the Directors of the Company to fix its remuneration.

3. To re-elect John Colin Harrington, who retires by rotation, as a Director.

4. To re-elect Thomas Hamilton Reynolds who retires by rotation, as a Director.

5. That the Directors be generally and unconditionally authorised in accordance with section 551 of the CA 2006 to issue and allot Ordinary Shares of £0.001 each in the share capital of the Company ("Ordinary Shares") or grant rights to subscribe for or to convert any security into shares in the Company (together "Rights") up to a maximum nominal amount of £404,083.49 (representing approximately 33 per cent. of the issued share capital of the Company), to such persons at such times and on such terms as they think proper, provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date falling 15 months from the date of the passing of this Resolution, or if earlier, at the conclusion of the annual general meeting of the Company to be held in 2022, save that the Company may at any time before such expiry make an offer or agreement which might require Ordinary Shares to be allotted or Rights to be granted after such expiry and the Directors may allot Ordinary Shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority hereby conferred has expired.

   This authority revokes and replaces all unexercised authorities previously granted to the Directors but without prejudice to any allotment of shares or grant of Rights already made or offered or agreed to be made pursuant to such authorities.

Special Resolutions

6. THAT, subject to the passing of Resolution 5 above, the Directors be generally empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash as if section 561(1) of the CA 2006 did not apply to any such allotment pursuant to the general authority conferred on them by Resolution 5 above (as varied from time to time by the Company in general meeting) PROVIDED THAT such power shall be limited to:

   a. the allotment of equity securities in connection with a rights issue or any other offer to:

      i. holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings; and

      ii. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

      but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

Notice of Annual General Meeting

(continued)

b. the allotment of equity securities pursuant to the terms of any share schemed for Directors and employees of the Company or any of the subsidiaries;

c. the allotment otherwise than pursuant to sub paragraph (a) to (b) (inclusive) above of equity securities up to an aggregate nominal amount of £122,449.54 representing approximately 10 per cent. of the issued share capital of the Company,

and the power hereby conferred shall operate in substitution for and to the exclusion of any previous power given to the Directors pursuant to section 570 of the CA 2006 and shall expire on whichever is the earlier of the conclusion of the annual general meeting of the Company to be held in 2022 or the date falling 15 months from the date of the passing of this Resolution (unless renewed varied or revoked by the Company prior to or on that date) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred by this Resolution has expired.

By order of the Board

CJ Eadie
Company Secretary

Registered office:

20-22 Wenlock Road
London
England
N1 7GU

Notice of Annual General Meeting

(continued)

Notes to the Notice of Annual General Meeting

Effect of COVID-19 regulations on the Annual General Meeting

1. The Board continues closely to monitor the coronavirus pandemic and our priority at this time remains the health, safety and well-being of all of our stakeholders. As part of its monitoring, the Board has noted, in particular, the gradual easing of public health restrictions across England in line with the government's "COVID-19 Response – Spring 2021 (Roadmap)" published in February 2021.
2. Based on that roadmap and associated guidance, it is currently anticipated that attendance in person at the meeting will not be unlawful. As such, we are keen to welcome Shareholders in person to our Annual General Meeting this year, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. We are therefore proposing to welcome the maximum number of Shareholders we are able within safety constraints and in accordance with government guidelines.
3. Shareholders intending to attend the Annual General Meeting, should this be possible, are asked to register their intention to attend as soon as practicable by emailing chris.eadie@zephyrplc.com.
4. Given the uncertainty around potentially tighter restrictions due to the COVID-19 pandemic, which could change at short notice, it cannot be known with certainty whether (or how many) Shareholders will be able to attend the Annual General Meeting
5. We strongly encourage all Shareholders to appoint the chairman of the Annual General Meeting as their proxy. This will ensure that your vote will be counted if ultimately you (or any other proxy you might otherwise appoint) are not able to attend the Annual General Meeting.
6. Voting on the resolutions will be by way of a poll rather than a show of hands. A poll ensures that the votes of Shareholders who are unable to attend the Annual General Meeting, but who have appointed proxies, are taken into account in the final voting results.
7. Should Shareholders wish to ask any questions in relation to the resolutions, which they may otherwise have asked at the Annual General Meeting had they been in attendance, they are encouraged to contact the Company prior to the Annual General Meeting by email to chris.eadie@zephyrplc.com.

Appointment of proxies

8. A Shareholder is ordinarily entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting. A proxy need not be a member of the Company. However, Shareholders are urged to appoint the Chair of the meeting as his or her proxy.
9. You can vote either:
   - by logging on to www.signalshares.com and following the instructions;
   - You may request a hard copy form of proxy directly from the registrars, Link Asset Services on Tel: 0371 664 0391 if calling from the United Kingdom, or +44 (0) 371 664 0391 if calling from outside of the United Kingdom, or email Link at enquiries@linkgroup.co.uk. Calls will be charged at local rate. Calls outside the United Kingdom will be charged at the applicable international rate. The lines are open between 9.00 a.m. – 5.30 p.m., Monday to Friday, excluding public holidays in England and Wales.
   - In the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

   In each case the appointment of a proxy must be received by Link Asset Services at PXS 1, Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL by 11.00 a.m. on 28 June 2021.
10. A vote withheld is not a vote in law which means that the vote will not be counted in the calculation of votes for or against the Resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the annual general meeting.

Notice of Annual General Meeting

(continued)

11. To be valid any form of proxy and power of attorney or other authority under which it is signed or a notarially certified or office copy of such power of authority must be lodged with the Company's Registrars:, PXS1, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL so as to be received not less than 48 hours before the time appointed for the meeting or any adjourned meeting.
12. Under the Company's articles of association, the return of a form of proxy or any CREST Proxy Instruction (as described in note 13 below) will not preclude a member from attending and voting at the meeting in person if he/she wishes to do so. However, in light of the COVID-19 virus situation, Shareholders and their proxies may not be allowed to enter the meeting. Shareholders are urged to appoint the Chair of the meeting as his or her proxy.
13. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
14. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (Link Asset Services, ID RA10) not less than 48 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
15. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.
16. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
17. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

18. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) will also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
19. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Link Group on 0371 664 0300 in the UK (calls are charged at standard geographic rate and will vary by provider). If calling from overseas please call +44 (0) 371 664 0300 between 9.00 a.m. – 5:30 p.m., Monday to Friday excluding public holidays in England and Wales. Calls outside the United Kingdom will be charged at the applicable international rate.

Notice of Annual General Meeting

(continued)

20. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

21. In order to revoke a proxy instruction, you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL no later than 48 hours prior to the meeting.
22. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.
23. Appointment of a proxy does not preclude you from attending the annual general meeting and voting in person. If you have appointed a proxy and attend the annual general meeting in person, your proxy appointment will automatically be terminated.

Corporate representatives

24. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

Issued shares and total voting rights

25. As at 6:00 p.m. on 4 June 2021, the Company's issued share capital comprised 1,224,495,445 Ordinary Shares of £0.001 each. Each Ordinary Share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6:00 p.m. on 4 June 2021 is 1,224,495,445 Ordinary Shares of £0.001 each. Each Ordinary Share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6:00 p.m. on 4 June 2021 is 1,224,495,445.

Communication

26. Except as provided above, members who have general queries about the annual general meeting should contact the Company Secretary at Zephyr Energy Plc, 20-22 Wenlock Road, London N1 7GU or on +44 (0) 207 225 4590 (no other methods of communication will be accepted). You may not use any electronic address provided either:
    - in this notice of annual general meeting; or
    - any related documents (including the Chairman's letter and proxy form),

    to communicate with the Company for any purposes other than those expressly stated.

Notice of Annual General Meeting

(continued)

Explanatory Notes To The Notice Of Annual General Meeting

The notes on the following pages give an explanation of the proposed Resolutions.

Resolutions 1 to 5 are proposed as ordinary resolutions. This means that for each of those Resolutions to be passed, more than half of the votes cast in person or by proxy must be in favour of the Resolution. Resolutions 6 is proposed as a special resolution. This means that for this Resolution to be passed, at least three-quarters of the votes cast must be in favour of the Resolution.

Resolution 1

This Resolution is to receive and adopt the Directors' reports and accounts for the year ended 31 December 2020, which accompany this document.

Resolutions 2 to 3

Mr John Colin Harrington is retiring as a Director by rotation at the annual general meeting in accordance with the provisions of the Company's articles of association and is standing for re-appointment.

Mr Thomas Hamilton Reynolds is retiring as a Director by rotation at the annual general meeting in accordance with the provisions of the Company's articles of association and is standing for re-appointment.

If each of these Resolutions are separately passed, the respective individual will be re-appointed as a Director of the Company.

Resolution 4

This is a Resolution to appoint RSM UK Audit LLP as auditor of the Company for the financial year ending 31 December 2021 and to authorise the Directors to fix their remuneration.

Resolution 5

This Resolution, if passed, would authorise the Directors to allot Ordinary Shares or grant Rights to subscribe for or convert any securities into Ordinary Shares up to an aggregate nominal amount of £404,083.49 representing approximately 33 per cent. of the current issued share capital.

The authority being sought in Resolution 5 replaces the authority granted on 16 April 2021.

The authority will expire on the earlier of 15 months from the date the Resolution is passed or the conclusion of the Company's annual general meeting in 2022.

Resolution 6

This Resolution, which is conditional upon Resolution 5 being passed, would give the Directors the authority to allot Ordinary Shares (or sell any Ordinary Shares which the Company elects to hold in treasury) for cash without first offering them to existing Shareholders in proportion to their existing shareholding.

This authority would be limited to an aggregate nominal amount of £122,449.54 (representing approximately 10 per cent. of the issued Ordinary Share capital of the Company as at 4 June 2021, being the latest practical date prior to the publication of the notice of the annual general meeting).

As with Resolution 5, the authority being sought pursuant to Resolution 6, replaces the authority granted on 16 April 2021.

The authority and power pursuant to Resolution 6 will expire on the earlier of 15 months from the date of Resolution 6 being passed or the conclusion of the Company's annual general meeting in 2022.

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

RSM UK Audit LLP
Central Square, 5th Floor
29 Wellington Street
Leeds
LS1 4DL

Solicitors

Memery Crystal LLP
165 Fleet Street
London
EC4A 2DY

Registrar

Link Asset Services
29 Wellington Street
Leeds
LS1 4DL

Nominated Adviser

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

Bankers

Barclays Bank Plc
Level 27
1 Churchill Place
London
E14 5HP

Broker

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

Registered Office:
20-22 Wenlock Road, London, N1 7GU

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