



Zephyr Energy plc

Annual Report and Financial Statements
For the year ended 31 December

2023

We are a technology-led producing oil and gas company focused on responsible resource development. We have a balanced portfolio of operated and non-operated assets, located in two established oil producing basins in the Rocky Mountain region of the United States.

We are committed to be responsible stewards of investors' capital, and the environment in which we work.

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

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Strategic report

Business highlights

FY 2023 REVENUES

US\$25.2million

2P RESERVES PARADOX

2.6mmboe

FY 2023 HYDROCARBON
SALES VOLUMES

1,116boepd

FY 2023 NET CASH GENERATED
FROM OPERATIONS

US\$11.6million

2C RESOURCES PARADOX

34mmboe

PARADOX ACREAGE AT JUNE 2024

46,000+

FY 2023 LOST TIME INJURIES ("LTIs")

Nil

2U RESOURCES PARADOX

270mmboe

About us

Growth & asymmetric upside in the U.S. oil and gas sector

We are a cash generative, producing oil and gas company focused on responsible resource development.

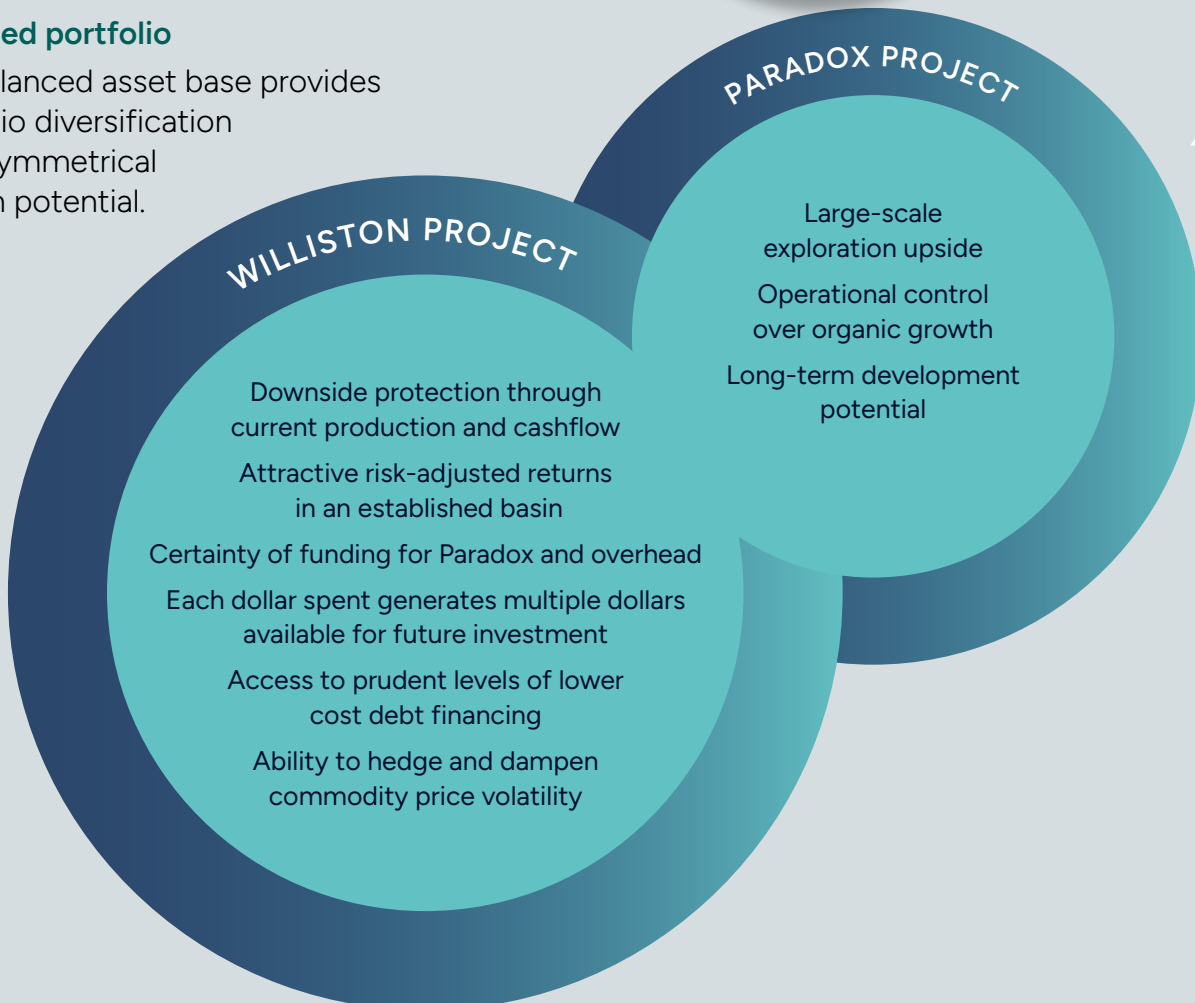
Since 2020, the team has completed 14 acquisitions and increased production from its non-operated assets from zero to a current run rate of 1,200 boepd in under three years. Our Paradox development offers significant potential upside for increased production.

Balanced portfolio

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

Our vision

Open up the next prolific onshore U.S. oil and gas play



About us

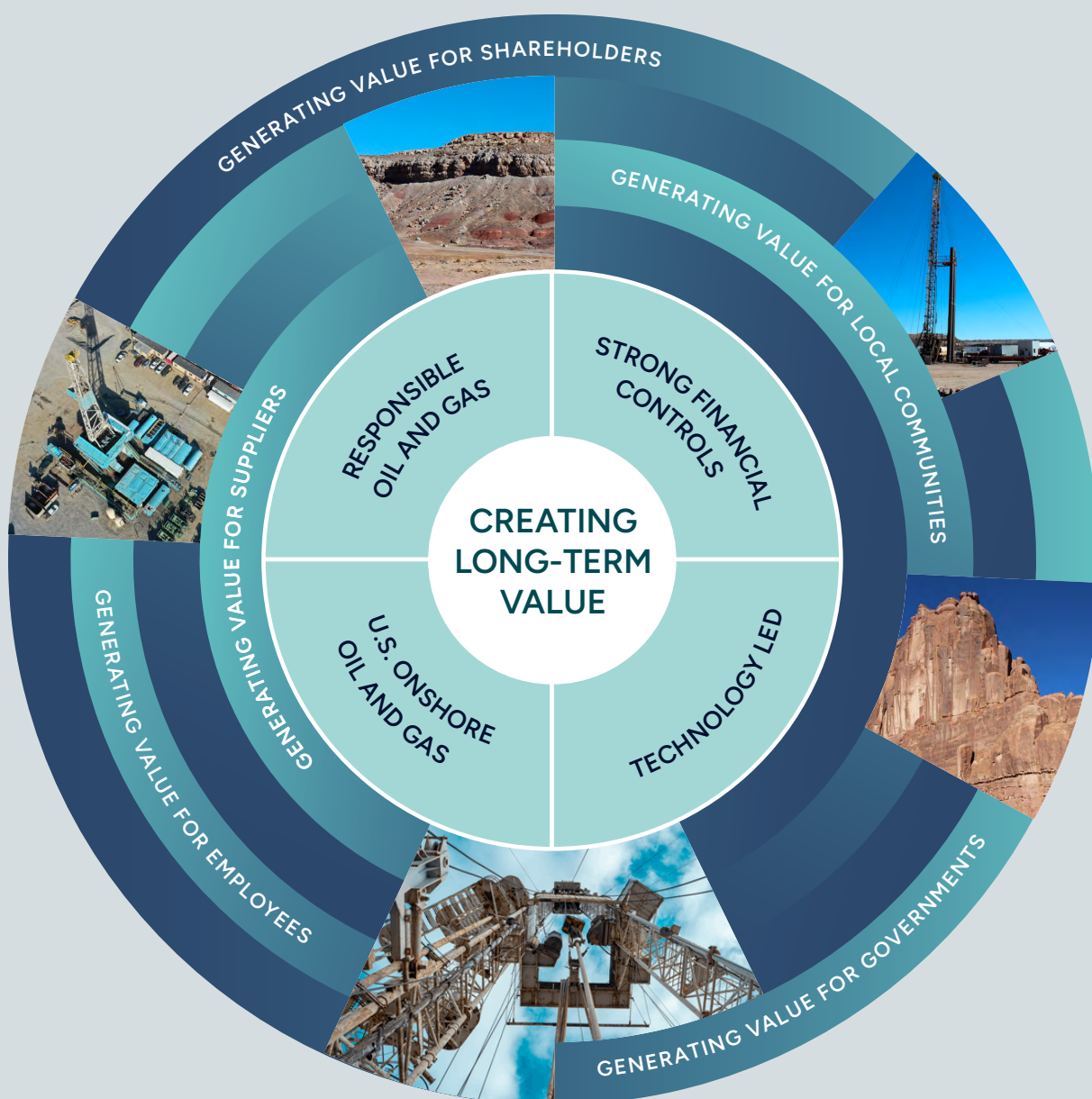
Purpose and values

We recognise we have an important part to play in shaping the future of our industry and a sustainable future.

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

Central to our purpose are our values.

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



Our assets

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

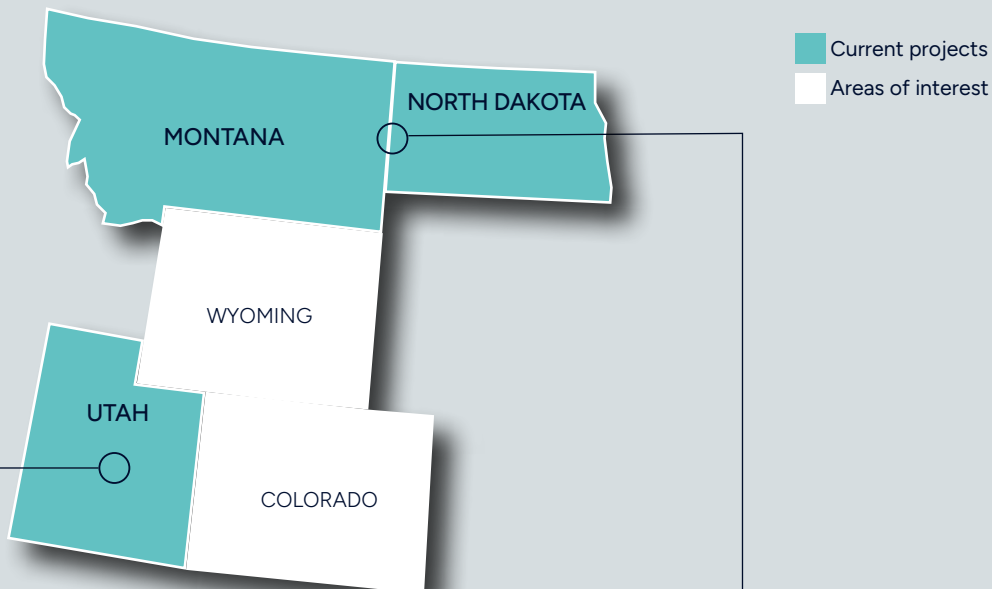
This strategy provides portfolio diversification and asymmetrical growth potential.



PARADOX PROJECT

UTAH

We hold a 46,000+acre leasehold with 2P reserves of 2.6 mmboe, 2C resources of 34 mmboe and 2U resources 270 mmboe. We continue to grow our land position and develop the project to delineate the full scale and potential value of the asset



WILLISTON PROJECT NORTH DAKOTA & MONTANA

A growing suite of non-operated production and near-term production assets acquired for their low-risk, high-return cashflow potential. Our non-operated portfolio generated revenue of circa US\$25 million in FY 2023.



Chairman’s statement



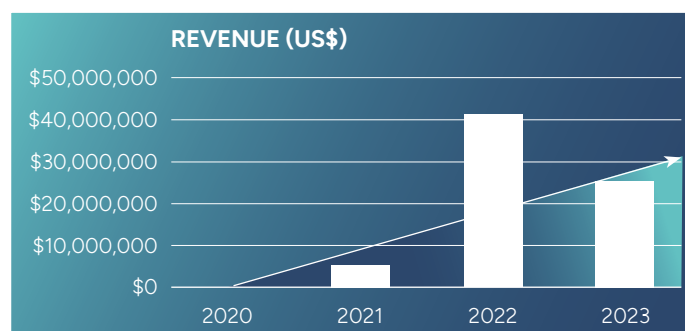
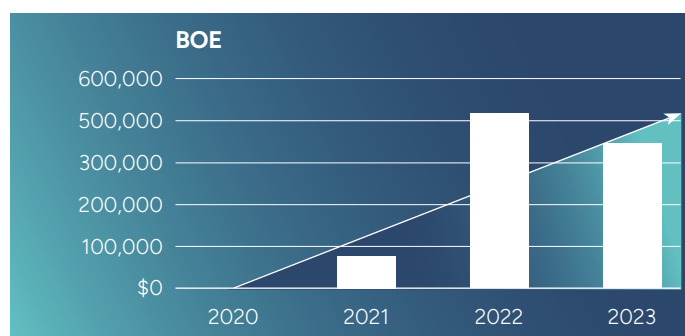
On behalf of the Company’s Board of Directors (the “Board”) I am pleased to present the Company’s financial and operational results for the 2023 financial year which reflect the ongoing efforts and commitment of the Zephyr team.

Despite facing a significant operational challenge during the 2023 financial year, we continued to deliver as a cash-generating, exploration and production group focused on two established oil producing basins in the Rocky Mountain region of the U.S., and we have made steady progress in the pursuit of our key objective of unlocking the next prolific onshore U.S. oil and gas play.

With a balanced portfolio of non-operated assets and an operated asset with asymmetric growth potential, our strategy is clear. Cashflows generated from non-operated asset production in the Williston Basin, North Dakota, U.S. (the “Williston project”) are recycled and reinvested to pursue development of our flagship operated asset in the Paradox Basin, Utah, U.S. (the “Paradox project”).

We are supported and driven by our exceptional people and have continued to bolster our team in the U.S. by way of several key hires in operations and finance. Led by an experienced executive leadership team with a proven track record, I believe this will enable us to deliver on our strategy and, in-turn, generate value and responsible growth for all our stakeholders.

“The Board is looking to the future with a high degree of confidence as we continue to deliver on our vision of ‘opening up the next prolific onshore U.S. oil and gas play’ and delivering value for all stakeholders.”



Chairman's statement

As always, the health, safety and welfare of the team and contractors is of prime importance. We have a zero-harm safety culture focused on continuous improvement to achieve an injury-free and safe work environment. The Board is pleased to report that during the period there were no Lost Time Injuries ("LTIs").

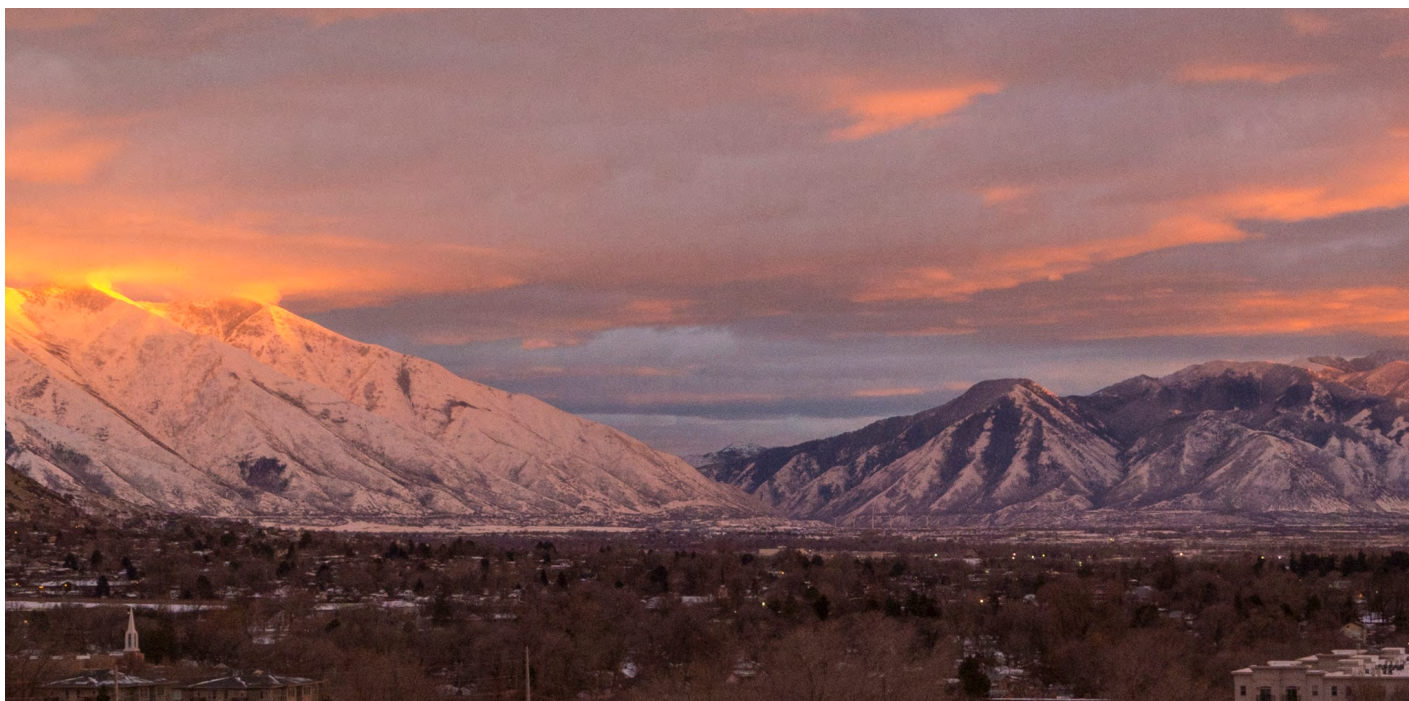
The Board is also committed to ensuring that the actions and investment decisions it makes are in line with our core values of being responsible stewards of investors' capital and of the environment. This includes our commitment to minimising our environmental impact through positive actions and to protect the surroundings in which we operate.

In this respect, I was incredibly proud of how we responded to the well control issue on the State 36-2 LNW-CC well (the "State 36-2 well") in April 2023. The incident was a significant event for our team but the response, in a difficult and fast-moving situation, was well executed despite the challenges faced. There were several important lessons learned from the incident, but a key takeaway for me was the professionalism and commitment of our team in addressing the situation in a responsible manner. It is further credit to the team that the incident was closed-off with no LTIs or long-term environmental damage and that we managed to get our day-to-day operations back on track to the point that drilling operations recommenced on the Paradox project within twelve months of the incident.

After months of meticulous planning, I was delighted that we managed to successfully drill the State 36-2R LNW-CC well (the "State 36-2R well"). Drilling operations delivered on all the key objectives, and we look forward to the commencement of the production test which will soon allow us to understand the full potential of the well. This will hopefully be the catalyst for an exciting and transformational period ahead.

I am pleased to point to several examples of key stakeholders who have worked with and supported the Company over the recent months demonstrating a strong endorsement of the Company and the way in which we operate.

Sturdy and honest relationships, formed over the years of working with multiple state and federal regulators, proved of great benefit during the well control issue and subsequent permitting of the State 36-2R well. The relationship and knowledge-sharing partnership with the U.S. Department of Energy and the University of Utah continues to benefit all parties, and further non-dilutive grant funding has recently been made available to the Company. Further, the supportive relationship with a key debt provider, SGR Investments LLC, as evidenced by the conversion of a sizeable portion of their existing debt into Zephyr's equity at the prevailing market price. I am proud that the Company is recognised by those with whom we work closely as a professional and quality operator.



Chairman's statement

Operational activity

Paradox project

During the period under review, Zephyr saw a recalibration at the Paradox project following the discovery of a major and productive natural fracture network and the subsequent well-control incident on the State 36-2 well.

What followed was a period of considerable activity to address the impacts of the well control incident. Once resolved, and after extensive due diligence, workover operations and confirmation that our well control insurance would cover substantially all costs associated with the redrill, the Board concluded that redrilling the State 36-2 well was the optimal path forward to harness the significant discovery made by the well.

Following the Board's decision, Zephyr's team commenced detailed internal well-planning processes (supplemented by multiple high-pressure/high temperature specialist service providers) which resulted in an augmented well plan. Once sundry permit approvals were granted, swift progress was made by our operational team with the award of the drilling permit and securing a rig contract with Helmerich & Payne ("H&P"), to enable full drilling operations to commence in April 2024.

We were delighted to recently announce that drilling operations on the State 36-2R well were completed safely and successfully and that all key objectives had been met. During the upcoming production test, the well will be flowed and production tested to determine reservoir pressure, fluid composition, well flow rate, bulk reservoir permeability and to deliver an early estimate of the overall potential recoverable resources.

The drilling successes achieved to date have given added impetus for the Group to secure an infrastructure solution for the gas produced from the Paradox project, and in September 2023 we noted the commissioning of the Green River pipeline owned by Dominion Energy LLC, Utah ("Dominion"). The pipeline crosses Zephyr's acreage position and has the potential to provide a nearby route for gas export from our Paradox acreage.

We are continually looking at ways to increase the scale, optionality and attractiveness of the Paradox project, and our new farm-in opportunity in the Salt Wash helium field is another exciting development. Our team has studied the potential to redevelop the remaining reserves of the Salt Wash Field, which lies directly to the south of our White Sands Unit (the "WSU"), utilises the same road network, and has similar oil and gas potential in the Paradox Formation as the WSU. While helium is a new addition to our resource exposure, many nearby Paradox Basin oil and gas operators are already producing commercial quantities in commercial quantities, with an active local offtake market for produced helium. While the Group is not looking for helium to become a primary focus, the Group is cognisant that it may offer optionality and represent a value-added opportunity for the Paradox project. We expect to partner with industry participants to help appraise and fund the potential of this resource while also taking advantage of our regional knowledge, existing operations and asset platform.

Williston project

Our non-operated assets continue to deliver strong cashflows, allowing us to proceed with our ongoing Paradox project development, and have been of critical importance during the period in which we managed the well control incident.

Our robust and diverse portfolio of non-operated production and near-term production assets were acquired for their low-risk, high-return cashflow potential. Since 2020, we have completed 14 discrete acquisitions with a portfolio of interests taking production from zero to a current run rate of over 1,200 barrels of oil equivalent per day ("boepd").

At 31 March 2024, we had 230 wells in our portfolio available for production and our net working interests now average 7.1% per well (equivalent to 16.3 total wells).

Environmental, Social and Governance ("ESG")

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

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



Chairman's statement

Financial

For the 2023 financial year, the Group reported revenues of US\$25.2 million (2022: US\$41.1 million) and a gross profit of US\$7.2 million (2022: US\$22.4 million).

These results were largely in line with our expectations, reflecting the lower oil price environment over the period, normal decline on the non-operated portfolio wells, and delays to the six wells operated by Slawson Exploration Company ("Slawson") coming online.

The Slawson wells are now online, albeit still not at full capacity. At the date of this report, production information indicates that the wells remain partially curtailed, likely due to gas infrastructure constraints.

Conclusion

I would like to extend my appreciation to the team and our contractors for their work during the past year to deliver on the development of the Paradox project and on our wider strategy. I would also like to extend my gratitude to my fellow Board members, leadership team, advisors and most importantly our Shareholders for their continued support.

The Board is looking to the future with a high degree of confidence as we continue to deliver on our vision of 'opening up the next prolific onshore U.S. oil and gas play' and delivering value for all stakeholders.

We have an exciting period ahead of us and I believe we have the pieces in place to enable us to deliver on our strategic objectives successfully

RL Grant

Chairman

26 June 2024



Our strategy and investment proposition

Our strategy

Our strategy remains clear, build cashflow generation from our non-operated portfolio (Williston Basin and other core basins) to systematically develop our flagship Paradox project.

We are focused on long-term production of profitable volumes of oil and gas across our portfolio.

We are focused on growth both organically and through value-accretive opportunities whilst maintaining strong financial controls and cautious risk management.

Our strategy is underpinned by our values and commitment to be a trusted partner and ambassador to create positive impact for all stakeholders.

Our three strategic pillars:

1 ACQUIRE production assets in U.S. basins

- Acquire working interest positions in value accretive, high-quality, cash generative production and growth assets
- Utilise cash generation from portfolio to develop flagship Paradox project

2 REINVEST in the Paradox project

- Further define Paradox project and materially increase reserve base
- Increase land position and acquisition of infrastructure to further reduce forecast expenditure

3 MAINTAIN VALUES

- Responsible stewards of:
 - Investors capital
 - The environment

“The Board is looking to the future with a high degree of confidence as we continue to deliver on our vision of opening up the next prolific onshore U.S. oil and gas play and delivering value for all stakeholders.”

Our strategy and investment proposition

Investment proposition

Our balanced portfolio of operated and non-operated assets continues to yield strong results. Growth of our non-operated portfolio has been considerable with revenues increasing from nil to over US\$25 million over the last three years, with sales volumes of 403,877 boe for FY 2023.



NON-OP TRACK RECORD

- From inception to 31 December 2023, the non-op portfolio delivered operating income of circa US\$52.9 million, with all its cashflow reinvested
- To date, Zephyr’s drilling investments have paid back in less than 20 months. Newer investments are projected to pay out in shorter time frames at current strip prices



BALANCED DE-RISKED PORTFOLIO

with asymmetrical upside potential

- Stable cashflows from the Williston project to be invested in the Paradox project
- Modern seismic, detailed core, log and pressure data
- U.S. Department of Energy grant funding and academic partnership



SIGNIFICANT DEVELOPMENT OPPORTUNITY

- Paradox project: 46,000+ acre position with significant inventory in an emerging basin where modern drilling and completions have not been used prior to Zephyr
- Significant inventory across the Paradox project, with 2U potential of over 270 mmboe
- Further upside through exposure to the Salt Wash Field helium play



TEAM POISED TO DELIVER

- A growing operational team proportional to Paradox activity
- Track record of delivering sustainable growth for energy companies



ESG FOCUS

- Limit our own carbon emissions through our VERs credit programme with a goal to mitigate all Scope 1 carbon emissions
- Proactive engagement with the communities in which we operate



NEAR-TERM CATALYSTS

- State 36-2R production testing underway
- Drilling the Salt Wash Field, increasing resource exposure
- Updated Paradox CPR

Chief Executive Officer's report and operating review



“The Group’s stated mission is to open up the next prolific onshore U.S. oil and gas play through the development of its flagship Paradox project”

Principal objectives and strategies

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

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

To achieve this mission, the Group has prioritised:

- Building a team with significant experience in the U.S. oil and gas sector, with a particular focus on operations, development, governance, finance, merger, acquisition, and turnaround experience. The Group has strengthened the operational team significantly during the 2023 financial year with several key appointments and promotions;
- Maintaining a clear strategic direction - we are wholly focused on responsible exploration and production assets in the Rocky Mountain region;
- The development of a non-operated asset portfolio that provides cashflow to be reinvested in the Paradox project;
- A continued focus on meaningful ESG efforts, including corporate governance compliance, pursuing carbon-neutrality across our operations, and proactive engagement with the communities in which we operate;
- The leveraging of partnerships (such as the U.S. Department of Energy, experienced operators in the basins in which we operate, and relationships with our debt providers and Shareholders);
- The design and build of a technology-led acquisition process which can rapidly assess opportunities of further interests through acquisition, farm-in agreements or joint venture arrangements; and
- Tight financial control and cash conservation.

Review of operations and future developments

Overview

The 2023 financial year, and the period since, were a time of sustained progress and activity for Zephyr despite an unwelcome operational setback with the well-publicised State 36-2 well control issue.

The Group continues to lay the foundations to bring the Paradox project into commercial production, and in doing so will deliver on the Board’s core mission of unlocking the next prolific onshore oil and gas play in the U.S.

Having made excellent progress in rectifying matters following the well control incident on the State 36-2 well, we subsequently recommenced our drilling operations, and the recent drilling of the State 36-2R well means we have now fully resumed our Paradox project activity and the wider project development.

In addition to our planned activity on the Paradox project, we expect to see increased cashflows from our non-operated assets over the course of the next financial year, particularly

Chief Executive Officer’s report and operating review

now that the Slawson wells are online. Planning is underway to develop our new farm-in project in the Salt Wash natural gas and helium field. The Salt Wash project will likely be undertaken in a financial partnership with industry participants.

I feel that we can look forward to the next period with a degree of optimism and excitement as we look to further unlock the value from our strong asset portfolio for our Shareholders.

Paradox project – operated asset

Background

The Board continues to believe that the Paradox project has considerable scale and economic potential.

The Paradox project is an operated lease holding of over 46,000 gross acres, 25,000 acres of which has been assessed, by third-party consultant Sproule International (“Sproule”), to hold, net to Zephyr, 2P reserves of 2.6 million barrels of oil equivalent (“mmboe”), 2C resources of 34 mmboe and net unrisks 2U resources of 270 mmboe.

The Group’s land management strategy continues to be active and has resulted in a defensible and growing land position which Zephyr’s Board believes is increasingly difficult to replicate in today’s increasingly regulatory and political environment.

To date, all three wells drilled by Zephyr at the Paradox project have discovered hydrocarbons, and the project appears capable of being transformed into commercial production once the wells are tied into natural gas infrastructure.

Drilling activity to date has provided the Group with a wealth of new reservoir information which has in turn resulted in a far greater geological understanding of our acreage position. This information includes strong evidence of:

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

Based on this, the Board believes that the Paradox project contains substantial potential upside and is fully focused on continuing the work required to develop the acreage into a revenue generating project.

The Board is delighted that Dominion’s 16-inch gas export pipeline which extends across the Paradox project has now been completed. This off-take solution directly crosses over Zephyr’s asset base and provides the potential for the commercial export of natural gas from our wells to the sales market.

Timeline

2024

- Salt Wash Field update
- Paradox Basin updated CPR
- State 36-2R production testing
- State 36-2R drilled

2023

- Zephyr agrees to farm into the proven Salt Wash Field, further expanding acreage position
- Dominion finishes pipeline extension and is capable of accepting gas volumes
- 36-2 hits major natural fracture and 28-11 well re-started with oil production

2022

- Additional Paradox Basin acreage acquired
- Unit-level gas pipelines and processing infrastructure acquired by Zephyr

2021

- Dominion Energy, one of the U.S. largest utilities, acquires the 16” pipeline leading to the drilling unit with plans to refurbish and extend it
- U.S. Government approval for formation of new 25,000 acre federal drilling unit
- 16-2 Horizontal lateral drilled, stimulated and tested - a first for the basin and with resulting peak initial production rates above 1,100 boe/d

2020

- 16-2 well drilled to Cane Creek reservoir in record time, with evident hydrocarbon shows
- U.S. Government grant award to fund initial vertical well (which confirmed movable hydrocarbons and seismic tie to actual geological conditions)

2018

- 25,000 acres of modern 3D seismic acquired and processed – best seismic in the basin

Chief Executive Officer's report and operating review

State 36-2 well

In November 2022, the Group announced that drilling on the State 36-2 well had commenced with the prime objective to target potential production from the Cane Creek reservoir. Drilling operations continued into 2023.

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

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

State 36-2 well production test and well control incident

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

On 7 April 2023, as workover operations were being completed, the well experienced a control issue despite multiple attempts to secure the well by the rig crew. The incident was initially caused by a downhole barrier failure and then a subsequent failure of a surface safety valve, which resulted in hydrocarbons being released from the well.

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

Ultimately, well control efforts were successful and remediation and clean-up operations completed. A third-party confirmatory environmental survey was subsequently undertaken and the results found no evidence of any environmental impact. The relevant authorities confirmed that the remediation satisfied regulatory standards.

During the incident, multiple joints of the well's 2 7/8-inch production tubing were compromised, and Zephyr's operations team worked methodically to remove and inspect the joints while keeping the wellbore static. Operations to retrieve the damaged tubing progressed slower than expected due to the poor condition of the tubing, as exhibited by the multiple damaged and buckled joints retrieved that led to the need for milling operations. Ultimately operations did not result in sufficient recoveries to justify the continuation of the ongoing cost of this well work versus the estimated cost to redrill the well.

Therefore, and following consultation with our regulators and insurers, the Board elected to proceed with a redrill of a "twinning" well, the State 36-2R well, from an adjacent location on the same drilling pad.

The Group retains full well control insurance coverage and expects to recover substantially all costs associated with the well control incident and the drilling costs associated with the redrill. At the date of this report, circa US\$12 million has been recovered in respect of the incident.

State 36-2R well

Over the last few months of 2023, with the aim of ensuring an optimal drilling outcome for the State 36-2R well, Zephyr's team commenced a detailed internal well-planning processes (supplemented by multiple high-pressure/high temperature specialist service providers) and continued its extensive interaction with the Group's well control insurance providers. This process culminated in an updated drilling plan which was then submitted to state and federal regulators for approval.

In February 2024, the Group announced that it had received the regulatory approvals and permits required to proceed with the redrill and in March 2024, following a detailed selection process, Zephyr announced that it had signed a rig contract with H&P for its Rig 257 to drill the well.

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

Chief Executive Officer's report and operating review

The key objectives of the State 36-2R well were:

- To successfully complete drilling operations to total depth safely and without harm to people, the environment or equipment;
- To successfully twin the State 36-2 well and intersect the same Cane Creek reservoir natural fracture system identified by it;
- To confirm the presence of hydrocarbons as found by the State 36-2R well, and further appraise the Cane Creek reservoir at Zephyr's federal WSU; and
- Should the original well result be replicated, to assess the reservoir productivity by flow testing the new well.

In April 2024, the Group announced that full drilling operations had commenced and the surface section of the well had been spud. By June 2024, the Group announced that the well had been completed safely and successfully, with the well drilled to a total depth of 10,290 feet (measured depth) where it intersected the same Cane Creek reservoir within 15 feet of the original wellbore and its natural fracture network. This means that the three of the four key objectives for the well have now been met.

Zephyr has mobilised the equipment for completion and production testing of the naturally fractured reservoir zone that was intersected during drilling operations and production testing is expected to be underway shortly.

Initial analysis from drilling indicates that the State 36-2R well, like the State 36-2 well, penetrated a folded and naturally fractured section of the Cane Creek reservoir. The well encountered drilling mud gas shows of a similar magnitude to the original well and pore pressure analysis suggest formation pressures estimated at approximately 9,300 pounds per square inch (which is broadly consistent with previously drilled offset wells).

The well further confirms the presence of hydrocarbons within a large structural compartment, within Zephyr's acreage and 3D seismic coverage. During the ongoing production test, the well will be flowed and production tested to determine reservoir pressure, fluid composition, well flow rate, bulk reservoir permeability and deliver an early estimate of the overall potential recoverable resources.

State 16-2LN-CC well update

Following on from the successful drilling, completion and production test of the State 16-2LN-CC well (the "State 16-2 well") in 2022, the first phase of the extended production testing on the well was completed within the flare consent limit set by the regulatory bodies, and Zephyr subsequently tested the well a second time in March 2023 to commission surface facilities, improve flow assurance and to gather more production data.

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

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

As flow rates were increased above those levels, well performance became limited by freshwater pumping capacity and was subsequently impacted by the formation of down-hole salt precipitate. The precipitate, which blocked and was subsequently cleared multiple times, impacted the well's flow capacity to achieve extended higher rates. The Group was in early stages of testing higher rates when its mandated flaring limits were reached.

The operational team is assessing whether the precipitate issue is a function of continued flow back of injected completion fluids or a function of normal flowing conditions. Under either scenario, the Group has planned mitigation solutions in place and plans to test these solutions in the coming months (subject to regulatory approvals and gas export availability) in order to fully determine the potential of the reservoir at this location.

Working interest acquisition, WSU restructuring and acreage acquisition

As outlined above, we continue to take a number of steps to strengthen the Paradox project land position which will be critical for the long-term success of the project.

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

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

- A first tranche of 13,483,095 new Ordinary Shares was issued to RSOC on the completion of the acquisition; and
- A second tranche of 26,966,189 new Ordinary Shares will be issued upon Zephyr's final investment decision with respect to the contract award to a primary contractor to commence construction activities to make the Powerline Road gas processing plant operational.

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

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

Chief Executive Officer's report and operating review

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

- Over 450,000 barrels of oil equivalent ("boe") in 2P Reserves;
- Over 7 million boe in 2C Contingent Resources; and
- Over 67 million boe of 2U unrisks Prospective Resources.

In late 2022, the Group announced the acquisition of additional Paradox Basin acreage adjacent to its WSU deemed by the Board to have immediate development potential.

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

A portion of the acquired acreage was envisioned to be added to the WSU, subject to approval from the U.S. Bureau of Land Management (the "BLM") for which the Group applied in early 2023. In July 2023, Zephyr announced that this approval was granted as part of larger expansion/contraction amendment of the WSU. As part of the approval, 5,000 high-graded acres with near-term development potential were added to the WSU, and roughly 5,395 acres deemed by the Group to be less suitable for future development were relinquished.

These actions are part of the Group's active and ongoing portfolio management of its project position. The Board is pleased with its ongoing BLM interactions which resulted in an amended federal unit with an upgraded and manageable acreage position - a position increasingly difficult to replicate in today's regulatory and political environment.

In August 2023, the Group announced an agreement to increase its land position through the targeted acquisition of an additional 640 leased acres deemed by the Group to be prospective for mid to long-term development.

The new acreage is on Utah School and Institutional Trust Lands Administration ("SITLA") lands and was secured during a SITLA auction. The acreage is close to the Group's existing WSU and gas export infrastructure.

Greentown wells

In July 2023, the Group announced that it had commenced an assessment of five existing wellbores (located in the WSU) acquired as part of a larger acquisition of infrastructure assets in 2022. Several of the existing wells are former producers of hydrocarbons and were subsequently shut-in due to lack of operating infrastructure. Others were deemed to have potential future use as salt water disposal wells or as producers of salt water brine for potential extraction of lithium resources.



Chief Executive Officer's report and operating review

As part of this assessment, Zephyr commenced production from the Greentown Federal 28-11 well (the "28-11 well") in order to understand the well's potential contribution to overall field production when ongoing field infrastructure work has been completed. Hydrocarbons were produced from the well, with condensate volumes collected for sale and natural gas volumes being flared within mandated limits.

Historically, the 28-11 well produced over 0.36 billion cubic feet ("bcf") of gas and 93,000 barrels of oil prior to being shut-in due to a pipeline shut-down.

Farm-in to Salt Wash helium field

In October 2023, the Group announced that it had opted to farm-in to the Salt Wash Field to increase the Group's oil and gas resource potential, and to achieve exposure to the U.S. industrial helium market. The farm-in is to a minimum 75% working interest in a 1,047-acre leasehold position in the Salt Wash Field which lies three miles to the south of the Group's WSU. The Board views the farm-in as a natural extension to the Paradox project.

The field has an already discovered, proven helium resource in the Leadville Formation, with further opportunity for upside through two deeper helium exploration targets.

The Group's management forecasts the Salt Wash project to include:

- Net helium discovered resource potential of 0.07 to 0.19 bcf (Lower Leadville Formation only);
- Net helium un-risked, prospective resource of a further 0.04 to 0.66 bcf (including exploration targets); and
- An estimated net present value at a 10% discount rate ("NPV-10") of circa US\$58 million with the risked upside case having an NPV-10 of circa US\$120 million (using US\$650 per thousand standard cubic feet ("mscf") and US\$750/mscf pricing, respectively).

Under the terms of the farm-in agreement, payments totalling US\$0.6 million were made to the incumbent leaseholder and it is the Group's intention that the dual-purpose Leadville Formation delineation well (the "Commitment Well") will be drilled. The Commitment Well would also test the two additional helium exploration targets and other potential hydrocarbon bearing reservoirs. The Group expects to partner with industry participants to help finance the Commitment Well and appraise and fund the potential of this resource while also taking advantage of our regional knowledge, existing operations and asset platform.

Dominion pipeline availability

In September 2023, the Group was notified by Dominion that its gas supply pipeline from the Northwest Gas Pipeline system to the Green River area was operational.



Chief Executive Officer's report and operating review

Williston project – non-operated asset**Overview**

In 2021, Zephyr stated that one of its key goals was to establish production and positive cashflow either through its existing portfolio (the Paradox project), via acquisition, or through a combination of both. The Williston project, following 14 discrete acquisitions, continues to deliver on this goal with 2023 production of circa 1,040 boepd, net to Zephyr, and corresponding revenues of circa US\$25 million for the year.

At 31 March 2024, Zephyr had working interests in 230 wells that were available for production. The working interests are in prime locations, and the majority of the wells are operated by Chord Energy Corporation, a leading Williston Basin producer.

The Group's non-operated portfolio continues to perform above the Board's initial expectations, and the cashflow from the portfolio proved to be critical in 2023 as the Group managed the fallout from the well control issue on the State 36-2 well.

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

2023 summary and outlook

2023 production from the non-operated portfolio averaged circa 1,040 boepd net to Zephyr, down from 1,410 boepd in 2022. 2023 full-year production was lower than in the previous year due to the standard decline of the portfolio and delays to the six Slawson wells coming online in which Zephyr has significant working interests.

2023 revenues were US\$25.2 million, compared to US\$41.1 million in 2022, impacted by the aforementioned decline as well as a substantially lower commodity price environment. The average realised price per barrel of oil was US\$78 in 2023, with a fully blended realised price of circa US\$65 per boe (including gas and NGLs). Average operating expenditure in 2023 was US\$19.93 per barrel demonstrating the high margins available on the Williston project production in the recent pricing environment.

At 31 December 2023, 225 wells in the portfolio were available for production, and net working interests across the Williston Basin non-operated portfolio averaged 8% per well, equivalent to 15.1 total wells net to Zephyr, all of which utilised horizontal drilling and modern, hydraulically stimulated completions.

The Slawson wells are expected to give a boost to production in 2024. The average daily production rate from the portfolio in March 2024 was 1,212 boepd (versus 1,053 boepd in the fourth quarter of 2023), reflecting the impact from the Slawson wells being online, albeit not at full capacity. At the date of this report, production information indicates that the wells remain partially curtailed, likely due to gas infrastructure constraints.



Chief Executive Officer's report and operating review

Slawson wells

In December 2022, Zephyr announced the acquisition of working interests in the six Slawson wells (equivalent to 1.1 total well) near to Zephyr's existing non-operated working interests for a total consideration of US\$2.9 million. In addition, Zephyr paid the US\$8.9 million capital expenditure ("CAPEX") associated with the working interests to bring the wells into production.

The wells are operated by Slawson, a top-tier operator and one of the largest private companies in the Williston Basin. Slawson was an early pioneer of horizontal development in the Williston Basin and has excellent access to oilfield service companies and infrastructure.

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

These new wells were originally expected to provide a sizeable production boost to the Group in the 2023 financial year (having been spud in November 2022 and expected online in the first half of 2023). However, delays were experienced due to issues with the completion of surface facilities on the well pad. The wells eventually came online on 1 November 2023 with initial flow rates exceeding management expectations, with production data adjusted for uptime showing an average flow rate of 897 boepd, net to Zephyr during the wells initial month of production.

Production from the Slawson wells was subsequently temporarily curtailed in mid-December 2023 due to adverse weather conditions and infrastructure constraints, and production resumed in late January 2024. At the date of this report, the wells are currently producing albeit not at full capacity as they remain partially curtailed likely due to gas infrastructure constraints.

While the delays in production from the Slawson wells has been frustrating, management believes that performance from the wells will ultimately meet expectations, with an increase to the Group's overall production expected in 2024 as a result of production from the wells

Further production additions

During February 2024, ten wells in which Zephyr holds working interests and which are operated by Continental Resources (Harms Federal and Quale Federal) were placed in production. Early production data shows these wells performing ahead of management expectations, adding initial production rates, net to Zephyr, of circa 75 boepd.

Hedging

In May 2023, the Board elected to enter into additional oil hedge agreements given that most of the hedges acquired in 2022 had since crystallised. Volumes hedged for the nine months ending 31 December 2023 were increased from 94,000 barrels ("bbls") to 137,000 bbls, at an average hedged production price of US\$84.76 per barrel of oil, with BP Energy Company ("BP"), one of the world's leading energy trading houses, continuing to serve as the counterparty.

At 31 December 2023, the Group had hedged 27,000 barrels of oil over the first quarter of 2024 at a weighted-average price of US\$82.20 per barrel of oil. In April 2024, a further 76,000 barrels of oil were hedged over the remainder of 2024. 40,500 barrels of oil were hedged at a price of US\$80.91, with the remaining 35,500 barrels of oil being hedged by way of financial collars which enable the Group to lock-in a minimum price for these barrels. Of these, 26,500 will give the Group a minimum price of US\$74 per barrel of oil with the remaining 9,000 guaranteeing a floor price of US\$69 per barrel of oil.

Corporate

In June 2023, the Company raised gross proceeds of US\$3.9 million (£3.2 million) by way of a placing of 90 million new Ordinary Shares of 0.1 pence each in the Company at a price of 3.5 pence per new Ordinary Share which was supported by a range of existing institutional and other investors, including Premier Miton.

During the period the Group strengthened its team in the U.S. through the appointment or promotion of several key individuals including:

- Andy Lee - appointed Chief Financial Officer (U.S.)
- Heather Hatfield - appointed Chief Accounting Officer
- Ryan Walter - promoted to Vice President - Operations

All three officers are based in Denver, Colorado.

In April 2024, the Company issued a total of 61,503,028 share options to Directors, certain employees and consultants of Zephyr, either to reflect historic awards under the Company's Long-Term Incentive Plan, bonuses for performances achieved in 2021 and 2022, to satisfy employee contractual commitments or commitments in lieu of deferred remuneration and fees from 2020, during the COVID-19 pandemic.

In May 2024, the Company retired US\$3.88 million of existing debt through the issuance of US\$3.88 million of equity comprised of 64,045,768 new Ordinary Shares of 0.1 pence each in the Company at a price of 4.85 pence per new Ordinary Share. The issue price of the Ordinary shares was the undiscounted mid-market closing price of the Company's Ordinary Shares on 2 May 2024.

Chief Executive Officer's report and operating review

The Ordinary Shares were issued to SGR Investments LLC ("SGRI"), a US-based institutional investor. In December 2022, SGRI provided debt funding to Zephyr Williston LLC, one of the Group's subsidiaries, to enable it to acquire the Slawson wells.

In May 2024, the Group announced that it had been awarded an additional US\$250,000 of non-dilutive grant funding from the U.S. Department of Energy (the "DOE") for operations on the State 36-2R well. This brings the total DOE grant funding made available to the Group to US\$3.65 million in recent years.

The grant is administered by the University of Utah's Energy & Geoscience Institute ("EGI"). Zephyr's technical team continues to work closely with the EGI, the Utah Geological Survey and other Utah-based partners in utilising DOE research funds to fully evaluate the potential overall productivity of the Paradox Basin.

In June 2024, the Group announced a new \$5.6 million term loan. The new term loan will amortise monthly over four years and has an interest rate of 10% per annum. Proceeds from the new term loan were used to repay the 12% SGRI loan, which has now been fully repaid.

Significant decisions made

During the period under review, the Directors made several discrete commercial decisions to ensure the continued growth of the business and, particularly, the advancement of the Paradox project.

The most significant decisions were the approvals required in respect of the State 36-2R well drill, the equity fundraise in June 2023 and the debt for equity exchange in May 2024. All key decisions were unanimously deemed by Board members to be in the best interests of the Group. Details of these items can be found in the relevant sections of this Annual Report.

Outlook

We are off to a strong start in the 2024 financial year with the successful drilling operation at the 36-2R well and the increased production performance from the Williston project now that the Slawson wells are online.

Over the last few months, we have witnessed the value and benefit of our two-tiered operating model with our non-operated asset portfolio providing essential funds for growth of the Group as a whole, and we look forward to the rest of the year with confidence.

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

JC Harrington
Chief Executive Officer

26 June 2024



Environmental, Social and Governance (“ESG”)

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

This includes the following points of focus:

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

Environmental

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

We are committed to:

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

The Board is proud of how Zephyr conducted its operations in the period under review, and particularly the response to the well control issue on the State 36-2 well, and we will always strive to adhere to our core values.

A major milestone was achieved when Zephyr announced its intention to achieve carbon-neutrality across its Scope 1 operational footprint in 2021 and the Group continues to strive for this throughout the 2023 financial year.

Environmental, Social and Governance (“ESG”)

As an integral part of this undertaking, Zephyr is collaborating with Prax, a British multinational independent oil refining, trading, storage, distribution and retail conglomerate dealing in crude oil, petroleum products and bio-fuels. Prax, which is headquartered in London and also has trading offices in Singapore and the U.S., has worked with Zephyr to measure, reduce and mitigate greenhouse gas emissions across Zephyr’s businesses, with mitigation efforts primarily focused on the purchase of VERs from reputable pre-vetted developers of sustainable projects. This exercise includes Zephyr’s non-operated production assets in the Williston Basin, North Dakota, U.S., and Paradox project activity.

An excellent example of the type of mitigation project supported by Zephyr is through the Group’s purchase of VERs from a landfill gas capture / combustion project in South Jordan, Utah. The project is overseen by third-party verifier NSF Certification LLC.

The South Jordan Landfill is a 200-acre sanitary municipal solid waste landfill in the Salt Lake area of Utah which has been in operation for 50 years. The landfill gas capture and combustion project commenced in 2005 and utilises a sophisticated gas collection and control system (“GCCS”) which in turn fuels three 1.6MW generator engines. The new system replaced an open flare process which had been utilised as the previous product destruction process at the site.

In addition to a significant reduction in greenhouse gas emissions resulting from the project’s methane capture processes, the project provides the following multi-faceted co-benefits:

- Increased safety by avoiding methane migration, an issue that many older landfills encounter;
- Controls of odours and destroys toxic compounds that can exist in landfills;
- Reduction of emissions of volatile organic compounds and other local pollutants;
- Reduction of methane levels in groundwater are reduced, resulting in cleaner water and air;
- Conversion of waste into energy, and is a top renewable energy source; and
- Creation of construction, operations and maintenance jobs in the state of Utah, the state in which Zephyr conducts all of its operations.

Social

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

We are committed to:

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

Health and safety

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

Financial review

The 2023 financial year was characterised by further investment in both the Paradox and the Williston projects.

Profitability and liquidity were down from the prior year primarily due to delays in the Slawson wells coming online, the State 36-2 well drilling costs and the associated well control issue.

With the Slawson wells now online, profitability is expected to increase again in the 2024 financial year.

Income statement

During the year ended 31 December 2023, the Group generated revenue of US\$25.2 million (2022: US\$41.1 million), and reported a gross profit of US\$7.2 million (2022: US\$22.4 million), which includes a gain of US\$0.4 million (2022: US\$1.8 million) in respect of the Group's hedging programme.

Administrative expenses for the year were US\$6 million (2022: US\$4.8 million). The increase from the 2022 financial year highlights the expansion of the Group's operational footprint to provide it with the capacity and capability to develop, manage and grow its operated and non-operated asset portfolios. The increase also reflects expenditure incurred in appraising new opportunities and other business development costs.

The Group reports foreign exchange losses of US\$2.8 million for the year (2022: gain of US\$6.1 million) which is predominantly in respect of unrealised losses on the restatement of intercompany loans between the Company and its subsidiaries. These losses arise due to the strength of sterling against the U.S. dollar at the end of 2023.

Finance charges of US\$3.5 million (2022: US\$2.2 million) have been charged in respect of interest charges and associated costs relating to the Group's borrowings and unwinding of discount on decommissioning. See note 7.

During the year ended 31 December 2023, the Group has recognised a deferred tax credit, and a corresponding reduction in its net deferred tax liability, of US\$1.6 million relating to unrelieved tax losses and temporary timing differences arising in the U.S. businesses (2022: US\$2 million)

The Group reports a net loss after tax of US\$3.5 million or a loss of 0.21 cents per Ordinary Share for the year ended 31 December 2023 (2022: net profit US\$19.3 million or a profit of 1.26 cents per Ordinary Share).

Balance sheet

Total investment in the Group's exploration and evaluation assets as at 31 December 2023 was US\$50 million (2022: US\$38 million) reflecting the ongoing investment in the Paradox project.

Total investment in property, plant and equipment as at 31 December 2023 was US\$50.8 million (2022: US\$51.8 million) reflecting depreciation, depletion and amortisation, decommissioning obligations and a working-interest disposal on the non-operated asset portfolio.

At 31 December 2023, the Group has recognised US\$0.3 million (2022: 1.3 million) outstanding derivative contracts in respect of its hedging programme at fair value, of which US\$ nil (2022: US\$0.2 million) has been recognised in non-current assets and US\$0.3 million (2022: US\$1.1 million) in current assets.

Trade and other receivables have increased by US\$3.3 million, primarily due to a provision of US\$2.9 million in respect of insurance recoveries relating to the well incident which had not yet been recovered at 31 December 2023. These proceeds have subsequently been received since the year end. See note 17.

Cash and cash equivalents as at 31 December 2023 were US\$3.6 million (2022: US\$9 million). During the year, the Company raised gross proceeds of US\$3.9 million (2022: US\$17.4 million) through the placing of new Ordinary Shares in the Company.

The Group's borrowings as at 31 December 2023 were US\$35.4 million (2022: US\$25.4 million). The increase in borrowings over the year reflects the CAPEX for drilling operations on the Paradox project. The rise in borrowings was necessitated by the delay in the Slawson wells coming online.

Subsequent developments

In April 2024, the Company issued a total of 61,503,028 share options to Directors, certain employees and consultants of Zephyr, either to reflect historic awards under the Company's Long-Term Incentive Plan, bonuses for performances achieved in 2021 and 2022 (the "Bonus Scheme"), to satisfy employee contractual commitments or commitments in lieu of deferred remuneration and fees from 2020, during the COVID-19 pandemic.

In May 2024 the Company retired US\$3.88 million of existing debt through the issuance of US\$3.88 million of equity comprised of 64,045,768 new Ordinary Shares of 0.1 pence each in the Company at a price of 4.85 pence per new Ordinary Share. The issue price of the Ordinary Shares was the undiscounted mid-market closing price of the Company's Ordinary Shares on 2 May 2024.

In June 2024, the Group announced that it had fully repaid the remaining US\$6 million of the loan that it had with SGRI. This was achieved largely through utilising proceeds from a new US\$5.6 million amortising term loan with First International Bank & Trust ("FIBT").

At 18 June 2024, the Group had cash and cash equivalents of US\$2.5 million.

Financial review

Key performance indicators

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

	Why we measure	Performance
Safety performance	<ul style="list-style-type: none"> The Group has a zero-harm safety culture focused on continuous improvement to achieve an injury-free and safe work environment We require employees and contractors to work in a safe and responsible manner and provide them with the training and equipment to do so 	<ul style="list-style-type: none"> There were no reported LTIs during the 2023 financial year (2022: nil) The Group experienced a well control issue in the 2023 financial year while drilling the State 36-2 well. The incident was professionally managed and did not result in any LTIs or long-term damage to the environment
Adjusted EBIDA Profit before tax adjusted for DD&A, finance costs, unrealised foreign exchange gains / losses and unrealised hedge gains / losses	<ul style="list-style-type: none"> Indicator of the Group's cash generation to fund expenditures and/or return capital to Shareholders 	<ul style="list-style-type: none"> 2023 Adjusted EBITDA was US\$11.8 million 2022 Adjusted EBITDA was US\$28.7 million The difference between the Adjusted EBITDA for 2023 and the prior year was primarily the result of the standard production decline of the non-operated asset portfolio, lower commodity prices in the year and delays to the six Slawson wells coming online
Net production	<ul style="list-style-type: none"> Indicator of revenue generation potential Measure of progress towards achieving production forecasts and driving profitable production growth 	<ul style="list-style-type: none"> 2023 production of 407,600 boe. 21% decrease in production from 2022 production of 514,650 boe Decrease primarily the result of the standard production decline of the non-operated asset portfolio, lower commodity prices in the year and delays to the six Slawson wells coming online
Growth of Paradox project reserve / resource play	<ul style="list-style-type: none"> Indicator of economic viability and long-term production potential of projects 	<ul style="list-style-type: none"> No changes to the Paradox reserves / resources during the year It is expected that a revised Competent Persons Report on the Paradox project will be prepared in the second half of 2024 At 31 December 2023, the Group had Paradox Basin 2P reserves of 2.6 mmmboe, 2C resources of circa 34 mmmboe and 2U resources of 270 mmmboe
Carbon emissions	<ul style="list-style-type: none"> Zephyr Energy is committed to sustainable and responsible oil and gas production 	<ul style="list-style-type: none"> Pursued Scope 1 carbon-neutrality from both operated and non-operated assets VERs credit partnership with Prax which aims to mitigate all Scope 1 carbon emissions

CJ Eadie

Group Finance Director

26 June 2024

Principal risks and uncertainties

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

The principal risks and uncertainties that the Group faces are:

Non-financial risks

- **Changes in government law or regulatory policy in the U.S.** could materially affect the rights and title to the interests held by the Group, and the operations and financial condition of the Group could be adversely affected. The Group is in continual proactive dialogue with both its UK and U.S. regulators to ensure ongoing compliance with its obligations.
- **Climate related issues** remain at the forefront of Board conversations and decisions. While climate-related opportunities continue to emerge in this rapidly evolving area, the Board recognises that these issues also present a risk to Zephyr that environmental regulations, climate change concerns, and investor driven change may result in (i) increases to the cost of doing business, (ii) hinder our ability to continue executing our strategy, or (iii) restrict access to certain markets or investors.
- **Zephyr is dependent on the continued services and performances of its core management team.** The loss of key personnel could have an impact on our ability to meet our strategic objectives. The Remuneration Committee reviews the employment terms for executives and key operational management with the aim of attracting, motivating and retaining key personnel for the Group. The Committee has also engaged an external, independent consultant to benchmark compensation against similarly sized industry group peers.
- **Potential impacts from a lack of adherence to health and safety policies** may result in fines and penalties, serious injury or death, environmental impacts, statutory liability for environmental redemption and other financial and reputational consequences that could be significant. Effectively managing Health and Safety Risk exposure is the top priority for the Board and management team which regularly review health and safety programmes and mitigations. Health and safety training is included as part of all staff and contractor inductions. Detailed training on our field manual procedures has been provided to key stakeholders to ensure processes and procedures are embedded throughout the organisation and all operations.
- **The results from the ongoing drilling campaign and production testing on the Paradox project** will have a significant impact for the Group. Poor results from the wells could have wider implications on the future development of the project. The Board is ensuring that all activities are appropriately planned and the technical team has undertaken a thorough review of geological and technical risks.
- **There is execution and geological risk on the Paradox wells.** The wells are deep, drilled in over pressured reservoirs, and will at times be hydraulically stimulated to deliver commercial production. The well control incident experienced in 2023 was a stark reminder of the complexity of drilling in the Paradox Basin and of the associated execution risk. The Group's technical team has considerable experience of working on this project.

In addition, the service industry is very well developed in the U.S. and the Group will only engage experienced contractors and service providers with detailed knowledge of relevant hydraulic stimulation techniques.

- **There is operational risk** associated with the availability of transportation, processing and marketing services for hydrocarbons produced from the Paradox wells. The Group's wells are located in a relatively remote area with limited midstream infrastructure and few service providers. The unavailability of any given service or the availability of service at uneconomic terms could have material implications for the scale and timing to develop the project. The Group's technical team is actively engaged in discussions with service providers and evaluating alternative solutions.
- **Cybersecurity risks** for companies have increased significantly in recent years due to the mounting threat and increased sophistication of cybercrime. A cybersecurity breach, incident or failure of our IT systems could disrupt our businesses, put employees at risk, result in the disclosure of confidential information, damage our reputation and create significant financial and legal exposure. Employees are our first line of defence against these attacks and we promote secure behaviours to help mitigate this growing risk. We engage with key technology partners and suppliers to ensure potentially vulnerable systems are identified and secured.

Financial risks

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

S172(1) statement

Statement by the Directors in performance of their statutory duties in accordance with S172(1) and 414CZA of the UK Companies Act 2006

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

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

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

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

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

The following is a summary of stakeholder engagements from 2023 and the period since.

Stakeholder engagement

Equity and debt investors

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

The major interests in the Company's Ordinary Shares are set out in the Directors' report. Through our regulatory updates and the publication of our half and full year financial reports, we inform Shareholders regarding the status of their Company. Further Shareholder engagement includes the Annual General Meeting ("AGM") and discussions with investors when questions are asked.

On a monthly basis we provide financial and operational updates to our primary commercial debt provider.

Employees

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

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

Governments and regulators

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

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

Communities

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

Environment

The Group fully recognises its obligation to minimise its impact on the environment and to be responsible in all its activities. This is currently achieved by complying with regulatory standards 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 Governance section of this document (page 27) and in respect of the environment at the relevant section above.

The Strategic report on pages 1 to 26 was approved by the Board on 26 June 2024.

On behalf of the Board,

JC Harrington
Chief Executive Officer

26 June 2024

Governance

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"As a Board we strive to ensure that our governance standards meet best practice, and it is a privilege to work with this Board which is committed to maintaining high standards of corporate governance."

Board of Directors



Rick Grant

NON-EXECUTIVE CHAIRMAN

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

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



Colin Harrington

CHIEF EXECUTIVE OFFICER

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

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



Chris Eadie

GROUP FINANCE DIRECTOR AND COMPANY SECRETARY

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

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

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



Gordon Stein

NON-EXECUTIVE DIRECTOR

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

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



Tom Reynolds

NON-EXECUTIVE DIRECTOR

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

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

Senior management



Andy Lee

CHIEF FINANCIAL OFFICER (U.S.)

Andy has over 25 years of energy experience and began his career as a drilling engineer for ExxonMobil working in Wyoming, West Texas, Gulf of Mexico, and Norway. He later moved to the finance side of the industry where he worked in roles such as public equity analyst, private equity investor and M&A principal.

Most recently, Andy was President and co-founder of Cat Canyon Resources, where he raised investment funds to acquire and develop a heavy oil field. Under his tenure, Cat Canyon commenced an active horizontal drilling programme and grew from California's 19th largest oil company to the 10th largest in less than three years.

Andy holds a BS degree in Mechanical Engineering and Political Science from MIT and an MBA from The Wharton School.



Gregor Maxwell

CHIEF OPERATING OFFICER

Gregor has a PhD in Reservoir Geology, with 25 years experience spanning production to new ventures roles.

Previously Gregor has worked with Apache, Rocksource and Chevron. He is now responsible for spearheading ZPHR analytics and technical approach.



Ryan Walter

VP OF OPERATIONS

Ryan holds a Bachelor of Science in Mechanical Engineering from Purdue University and has over a decade of experience in the oil and gas industry.

Prior to Zephyr, Ryan served as a Senior Operations Engineer and Joint Interest Supervisor at Whiting Petroleum, where he supported operations in both the Williston Basin and DJ Basin.



Jorge Gutierrez

EVP GENERAL COUNSEL

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



Heather Hatfield

CHIEF ACCOUNTING OFFICER

Prior to joining Zephyr Heather served as the Chief Accounting Officer at Cat Canyon Resources, LLC. from June 2019 to October 2023. She served as Controller at Elk Petroleum from 2018 to 2019. From 2014 to 2018 she served as Chief Accounting Officer at Venoco, LLC and from 2013 to 2014 she served as Internal Audit Director at Venoco. Heather began her career in public accounting and worked at Grant Thornton from 2008 until 2013 in various roles, including, Advisory Services Senior Manager.

Heather is a certified public accountant and holds a Bachelor of Arts degree in business and accounting from Western State College of Colorado and a Masters of Accountancy from the University of Denver.

Corporate governance statement

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

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

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

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

The QCA launched an updated version of the Code in November 2023. The revised Code gives greater prominence to themes which are increasingly relevant to business practices and investor focus such as Director remuneration, succession and contingency planning, risk management and Board independence and composition.

The QCA has recommended that companies start applying the revised Code in respect of accounting periods commencing on or after 1 April 2024. So, while the revised Code will not apply to Zephyr until the 2025 financial year, the Board is fully cognisant of the revised Code and will be looking to implement the new aspects of the Code over the coming months where appropriate.

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

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

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

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

RL Grant

Non-Executive Chairman

26 June 2024



Corporate governance statement

The Board and its committees

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

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

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

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

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

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

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

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

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

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

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

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

Communication with Shareholders

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

Internal controls

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

Corporate governance statement

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

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

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

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

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

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Maintain the Board as a well-functioning, balanced team led by the Chair	Fully Compliant	<p>The Board comprises the Non-Executive Chairman, two Executive Directors and two Non-Executive Directors (both of which are considered by the Board to be independent). One of the Non-Executive Directors, GB Stein, acts as the Group's Senior Independent Director</p> <p>The Board is constantly reviewing its make up to ensure that it has a sufficient blend between independence on the one hand, and knowledge of the Group on the other, to enable it to discharge its duties and responsibilities effectively</p> <p>All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. The Chairman holds regular update meetings with each Director to ensure they are performing as they are required. Board meetings take place, on average, every 4 to 6 weeks, normally held by telephone conference owing to the diverse geographic locations of the Board members</p>	See Governance section of Annual Report for full details on the Board structure
Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Fully Compliant	<p>The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of exploration, development and production of oil and gas assets. All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. All Directors retire by rotation at regular intervals in accordance with the Group's Articles of Association</p> <p>The Board makes decisions regarding the appointment and removal of Directors, and there is a formal, rigorous procedure for appointments. The Group's Articles of Association require that one-third of the Directors must stand for re-election by Shareholders annually in rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment</p> <p>All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Group's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and Finance Director</p>	See Governance section of Annual Report for full details on the Board structure
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Fully Compliant	<p>The Chairman continually assesses the contribution of each member of the Board to ensure that:</p> <ul style="list-style-type: none"> • Their contribution is relevant and effective • That they have a commitment to progressing the Group's objectives in order to increase Shareholder value • Where relevant, they have maintained their independence <p>Given the Group's ongoing expansion, the Board (led by the Chair) is constantly reviewing the performance and structure of the team as a unit and to ensure that the members of the Board collectively function in an efficient and productive manner</p>	Key Performance Indicators in the Strategic report
Promote a culture that is based on ethical values and behaviours	Fully Compliant	<p>The Board aims to lead by example and do what is in the best interests of the Group</p> <p>The Board spends a significant amount of time formulating and agreeing on the core principles and values under which Zephyr will operate. In short, Zephyr's team will always strive to be responsible stewards of its investors' capital and responsible stewards of the environment in which we work. We believe that good environmental performance, together with good governance practices, will translate into good business performance and therefore are focused on delivering strong economic returns in the most environmentally responsible manner practical</p>	Chairman's statement Strategic report Corporate governance statement

Corporate governance statement

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	Fully Compliant	<p>The Board meets regularly for both formal Board meetings and for informal discussions</p> <p>The Board sets direction for the Group through a schedule of matters reserved for its decision. The Board and its Committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place. Any Director may challenge the Group's proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting, which are then circulated to all Directors. Any specific actions arising from such meetings are agreed by the Board or relevant Committee and then followed up by the Group's management</p> <p>The Executive Team consists of the Chief Executive Officer and the Financial Director with input from the other Directors. They are responsible for formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of Directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The Chief Executive Officer reports to the plc Board on issues, progress and recommendations for change. The controls applied by the Executive Team to financial and non-financial matters are set out earlier in this document, and the effectiveness of these controls is regularly reported to the Audit Committee and the Board</p> <p>The Board is supported by the Audit and Remuneration Committees. Each Committee has access to such resources, information and advice as it deems necessary, at the cost of the Group, to enable the committee to discharge its duties</p> <p>The Audit Committee is Chaired by the Senior Independent Director, GB Stein. The Non-Executive Director, TH Reynolds, is the other member of the Committee</p> <p>The Remuneration Committee is Chaired by the Senior Independent Director, TH Reynolds. The Non-Executive Chairman, RL Grant, is the other member of the Committee</p>	Corporate governance statement
Communicate how the Group is governed and is performing by maintaining a dialogue with Shareholders and other relevant stakeholders	Fully Compliant	<p>The Group communicates with Shareholders through the Annual Report, full-year and half-year announcements, the AGM and one-to-one meetings with large existing or potential new Shareholders. The Group also keeps Shareholders updated on progress and developments through its regular market announcements. The CEO remains a key part of encouraging Shareholder interaction and listening to feedback. A range of corporate information (including all group announcements and presentations) is also available to Shareholders, investors and the public on the Company's website; www.zephyrplc.com</p> <p>The Board receives regular updates on the views of Shareholders through briefings and reports from the Chief Executive Officer, Group Finance Director and the Group's brokers. The Group communicates with institutional investors frequently through briefings with management. In addition, analysts' notes and brokers' briefings are reviewed to achieve a wide understanding of investors' views</p> <p>The Group's website includes the following:</p> <ul style="list-style-type: none"> • Disclosure of any instances where a significant proportion of votes (e.g. 20% of independent votes) have been cast against a resolution at any general meeting, an explanation of what actions the Group intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote • Historical annual reports and other governance-related material, including notices of all general meetings over the last five years 	www.zephyrplc.com

JC Harrington
Chief Executive Officer

26 June 2024

Directors' report

The Directors present the Annual Report and financial statements of the Group for the year ended 31 December 2023.

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2023 (2022: nil).

Directors

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

JC Harrington
 RL Grant
 TH Reynolds
 GB Stein
 CJ Eadie

Directors' remuneration

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

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

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

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

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

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

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

Directors' report

Remuneration paid to Directors during the year was as follows:

	2023			
	Salaries ¹ taken US\$'000	Bonus ² US\$'000	Pension US\$'000	Total US\$'000
Executive Directors				
JC Harrington	522	250	50	822
CJ Eadie	230	109	22	361
Non-Executive Directors				
RL Grant	100	-	-	100
TH Reynolds	81	-	-	81
GB Stein	81	-	-	81
	1,014	359	72	1,445

1 Salaries include benefits-in-kind

2 Discretionary bonuses relating to performance in FY 2022, paid in January 2023

	2022			
	Salaries ¹ taken US\$'000	Bonus ² US\$'000	Pension US\$'000	Total US\$'000
Executive Directors				
JC Harrington	500	207	34	741
CJ Eadie	217	93	13	323
Non-Executive Directors				
RL Grant	65	25	1	91
TH Reynolds	44	25	-	69
GB Stein	44	25	-	69
	870	375	48	1,293

1 Salaries include benefits-in-kind

2 Discretionary bonuses relating to performance in FY 2021, paid in January 2022

Directors' interests in shares and share options

The Directors who held office at 31 December 2023 had the following interests, including family interests, in the Ordinary Shares of the Company as follows:

	Number of Ordinary Shares	
	31 December 2023	1 January 2023
CJ Eadie	7,229,640	6,775,095
JC Harrington	160,408,482 ¹	138,590,300 ¹
TH Reynolds	1,000,000	1,000,000
GB Stein	2,350,000	2,350,000
RL Grant	1,500,000 ¹	1,500,000 ¹

1 JC Harrington is indirectly the controlling shareholder of Origin Creek Energy LLC ("OCE") which was the beneficial owner of 158,954,546 shares at 31 December 2023. RL Grant is a 19% shareholder of OCE

Directors' report

Directors' interests in share options of the Company, including family interests, as at 31 December 2023 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 2023, Directors and Officers liability insurance for the benefit of all Directors of the Company.

Governance

Governance matters are set out on pages 27 to 46.

Substantial shareholdings

Other than the Directors' interests shown above, the Company has been notified of the following substantial interests as at 24 June 2024¹:

	Number of shares	Percentage of issued share capital
Tyndall Investment Management	195,293,650	11.2%
Origin Creek Energy LLC	158,954,546	9.1%
SGR Investments LLC	64,045,768	3.7%

¹ As per most recent notification to the Company

Going Concern

The Directors have prepared cashflow forecasts for the Group and the Parent Company for the period to 31 December 2025 based on their assessment of both the discretionary and the non-discretionary cash requirements of the Group during this period and based on a range of sensitivities and scenarios.

These cashflow forecasts include the forecast revenues from, and the operating costs of, the Group's operations, together with all committed development expenditure and cashflows related to the drilling of the State 36-2R well and the expected insurance recoveries from the drilling operations. As disclosed in note 13, a well incident happened during the year which led to the drilling of

the new State 36-2R well. The Group has comprehensive well control insurance coverage and the Board expects to recover insurance proceeds from the well incident for the cost of drilling the new State 36-2R well. Should the insurance proceeds be delayed or lower than expected, the Group could require further funding to meet its commitments within the going concern assessment period.

In addition, as at 31 December 2023, the Group and the Parent Company had existing borrowings that are payable within 12 months (current) from the end of the reporting period. To meet this obligation, the Group and the Parent Company will require debt refinancing of existing borrowings or raising of additional funding.

As such, the Group and the Parent Company's ability to continue as going concerns is dependent on securing insurance proceeds and debt refinancing of existing borrowings or raising additional funding which are not guaranteed. This indicates the existence of a material uncertainty which may cast significant doubt over the Group and the Parent Company's ability to continue as going concerns, and therefore, the Group and the Parent Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

Following detailed discussions, the Directors are confident that the Group and the Parent Company will be able to secure insurance recoveries as per above, refinance their existing borrowings and raise additional funding to enable the Group and the Parent Company to continue in operation for at least the next twelve months from the date of approval of the financial statements. The Directors have extensive experience in raising capital for projects and ventures and remain confident in the Group and the Parent Company's ability to raise the capital needed to maintain and deliver on its commitments and continue as a going concern.

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

Directors' report

Post balance sheet events

Events after the balance sheet date have been disclosed in note 29 to the financial statements.

Financial instruments

During the year the Company and its subsidiary undertakings applied financial risk management policies as disclosed in note 27 to the financial statements.

Disclosure of information to the auditor

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

Auditor

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

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

On behalf of the Board,

CJ Eadie

Group Finance Director

26 June 2024



Statement of Directors' responsibilities

in respect of the Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic report and the Directors' report and the financial statements in accordance with applicable law and regulations.

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

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

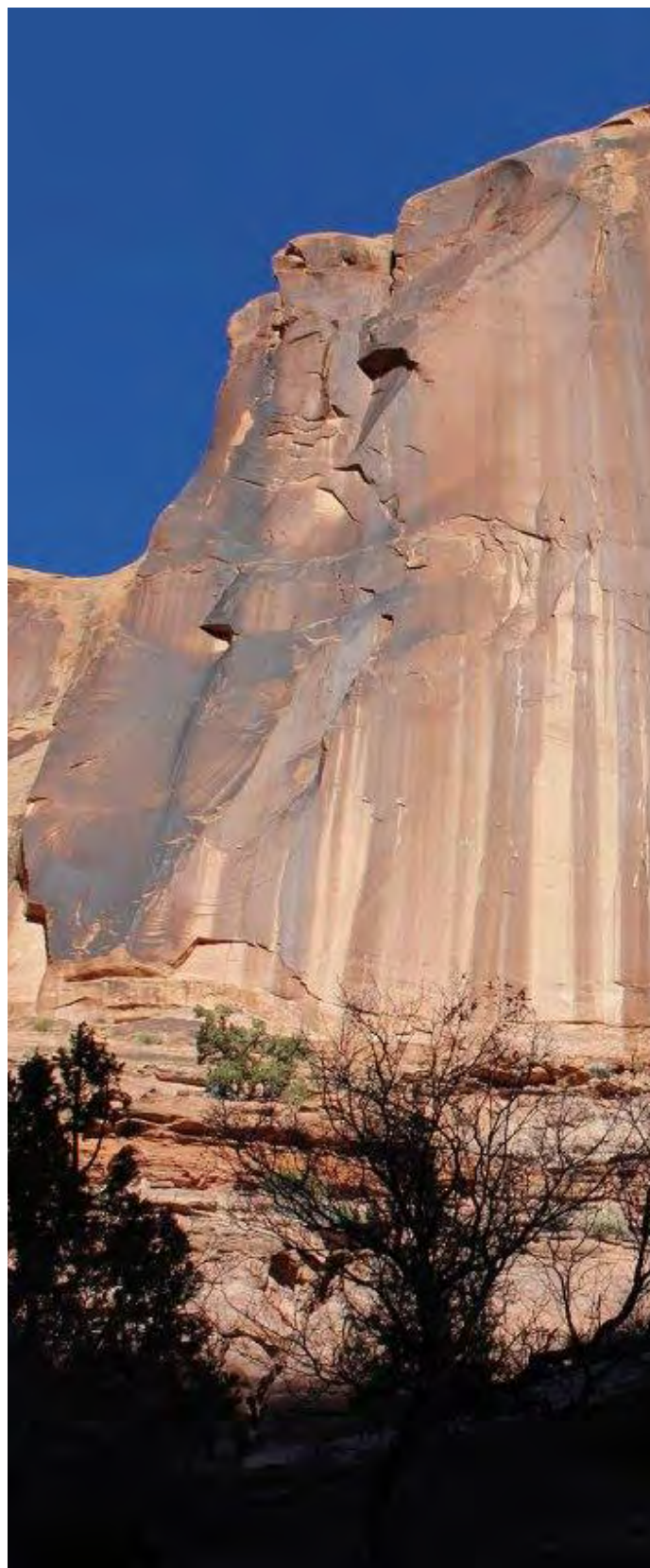
Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

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

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

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

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



Independent auditor's report

to the members of Zephyr Energy plc

Opinion on the financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- The Parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Zephyr Energy plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2023 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the Company balance sheet, the Company statement of changes in equity, the Company cash flow statement and the notes to the financial statements, including a summary of material accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

Independence

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

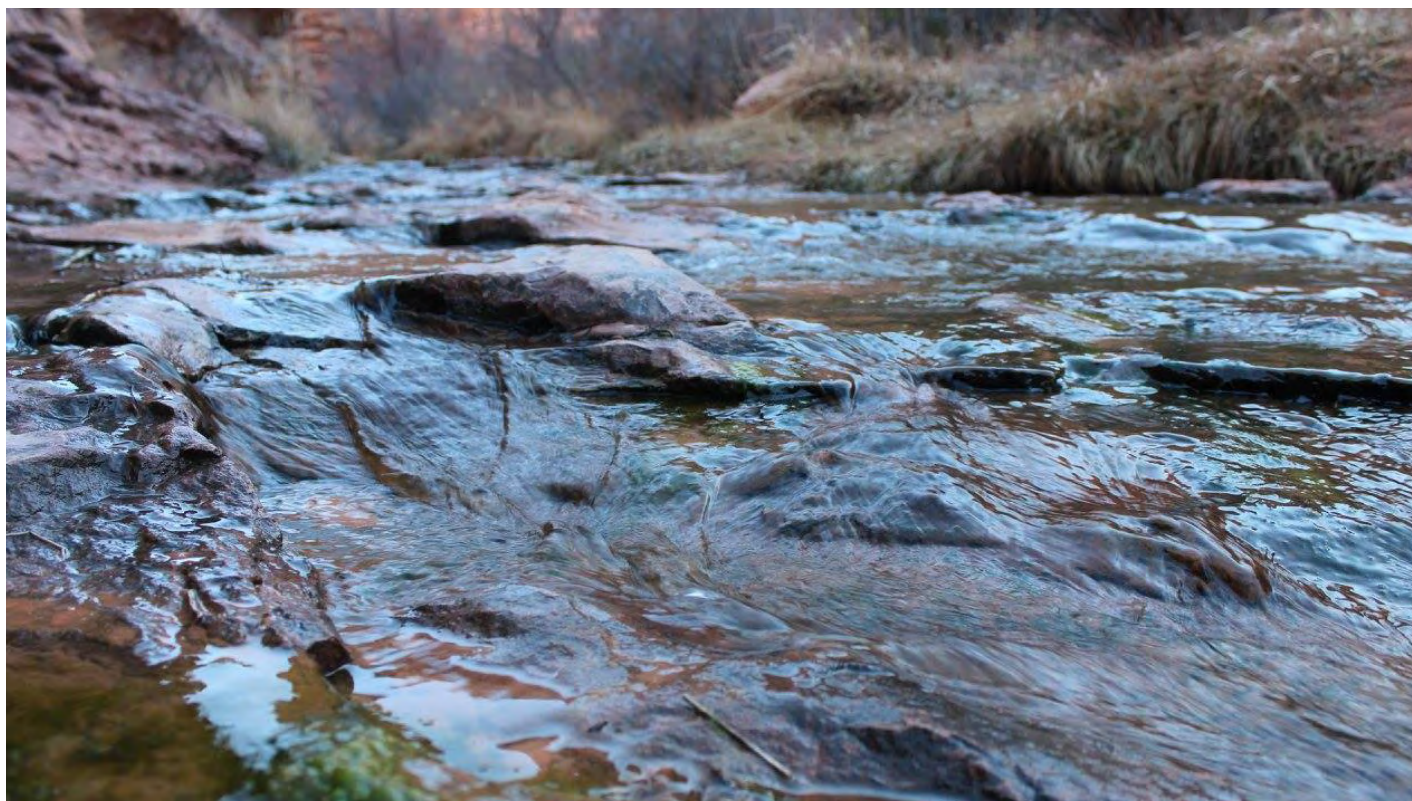
Material uncertainty related to going concern

We draw your attention to note 3 of the financial statements, which explains that the Group's and the Parent Company's ability to continue as going concerns is dependent on securing insurance proceeds and debt refinancing of existing borrowings or raising additional funding which are not guaranteed. As stated in note 3, these events or conditions, along with other matters as set forth in note 3 indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Parent Company's ability to continue as going concerns. Our opinion is not modified in respect of this matter.

We have determined going concern to be a key audit matter as a result of the judgements and estimates made by the Directors and significance of this area. Our evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting and our response to this key audit matter is set out below:

- Obtaining and evaluating the Board papers assessing going concern for the forecast period, the assessment of risks and uncertainties and the supporting cashflow forecasts prepared by Directors. We formed our own assessment of risks and uncertainties based on our understanding of the business and the oil and gas sector;
- Reviewing evidence on the planned borrowings, including related correspondences;
- Assessing the appropriateness of the period over which going concern is being assessed against the requirements of the applicable standard;
- Assessing Directors' base case cash flow forecast and the underlying key assumptions which have been approved by the Board and the mathematical accuracy of such. In doing so, we considered metrics affecting the future cash flows, such as operating costs, production, forecast oil prices and capital expenditure commitments approved by the Board against actual performance for the year 2023 and the forecasts prepared by Directors;
- Agreeing the recent available cash position to bank account statements;
- Obtaining and assessing the sensitivity analysis reflecting adverse scenarios by applying a lower than forecast oil price or lower than forecast production;
- Reviewing correspondence after the reporting date regarding the expected insurance recoveries related to the drilling of State 36-2R well to assess the recoverability;
- Reviewing post year end press releases, Regulatory News Services announcements and Board minutes for any indicators of obligations or significant adverse issues; and
- Reviewing and evaluating the adequacy and completeness of disclosures in the financial statements in respect of going concern based on the evidence obtained through the procedures as per above.

Independent auditor’s report



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

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

Overview

Coverage	99% (2022: 100%) of Group loss before tax 100% (2022: 100%) of Group revenue 100% (2022: 100%) of Group total assets		
Key audit matters		2023	2022
	Carrying value of oil and gas properties	✓	✓
	Going concern	✓	✓
Materiality	Group financial statements as a whole US\$1.7 million based on 1.5% of total assets as at year end (2022: US\$1.5 million based on 1.5% of total assets)		

An overview of the scope of our audit

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

Identification of significant components

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

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

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

Independent auditor's report

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the

engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section above, we determined the matter below to be the key audit matter to be communicated in our report.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Carrying value of oil and gas properties</p> <p>Refer to notes 3 and 14.</p> <p>The oil and gas development and producing assets form a significant part of the Group's statement of financial position. Management is required to consider if there are any facts or circumstances (potential impairment indicators) that would suggest that the oil and gas producing properties would be impaired in accordance with IAS 36, "Impairment of assets". Where indicators of impairment are identified, impairment testing is required to ensure that the Group's assets are carried at no more than their recoverable amount. Following their assessment, management have not identified any impairment indicators on its oil and gas properties.</p>	<p>Our audit procedures in this regard included:</p> <ul style="list-style-type: none"> • Reviewing and assessing management's allocation of assets to the cash-generating unit ("CGU") for the purpose of the impairment indicators assessment; • Examining management's assessment of impairment indicators against the requirements of IAS 36 "Impairment of assets"; • Assessing the forecast as per economic model for the oil and gas properties, included in the CGU by reviewing the pricing information, production volumes, operating and transportation costs against the forecasts prepared as part of Competent Person's Report ("CPR") as issued by independent qualified reservoir engineers as management's expert; • Performing a review of management's economic model assumptions, challenging the appropriateness of estimates with reference to historical data and external evidence where available and assessing the related key estimates for potential management bias; • Checking the consistency of the reserves and related future cashflows with the economic forecasts as per the latest CPR and assessing whether the discounted cashflow forecast as per the CPR is consistent with the management's impairment indicators assessment; and • Assessing the management's experts preparing the CPR on the oil and gas reserves, particularly focused on the competence and objectivity of the expert and the scope of their work to check the CPR was prepared under the required guidelines and is appropriate for its intended purpose.

Key observations

Based on procedures performed we found the judgements and estimates applied by management in assessing the oil and gas properties for indicators of impairment were appropriate and that their conclusion that there was no impairment as of 31 December 2023 to be reasonable.

Our application of materiality

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

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

Independent auditor's report

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2023 US\$ million	2022 US\$ million	2023 US\$ million	2022 US\$ million
Materiality	1.7	1.5	0.8	0.8
Basis for determining materiality	1.5% of total assets	1.5% of total assets	1.5% of total assets	1.8% of total assets
Rationale for the benchmark applied	Given the asset-based focus of the business with its significant exploration asset base we considered it appropriate to adopt a total assets-based measure of materiality.	Given the asset-based focus of the business with its significant exploration asset base we considered it appropriate to adopt a total assets-based measure of materiality.	Given the asset-based focus of the business as a holding company we considered it appropriate to adopt a total assets-based measure of materiality.	Given the asset-based focus of the business as a holding company we considered it appropriate to adopt a total assets-based measure of materiality.
Performance materiality	1.1	0.7	0.6	0.6
Basis for determining performance materiality and rationale for the percentage applied	70% of materiality (2022: 70%). Performance materiality was set at 70% based on consideration of factors including the level of historical errors and nature of activities.			

Component materiality

Component materiality for the U.S. based component Rose Petroleum (US) LLC, which represented the only significant component other than the Parent Company, was set at US\$1.5 million (2022: US\$1.3 million) based on 1.5% of the component's total assets. In the audit of that component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US\$34,000 (2022: US\$30,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

We have nothing to report in this regard.

Independent auditor's report

Other Companies Act 2006 reporting

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

Strategic report and Directors' report

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.

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatement in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

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.



Independent auditor's report

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Non-compliance with laws and regulations

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

Our procedures included the following:

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

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Independent auditor's report

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls and revenue recognition.

Our procedures in respect of the above included:

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

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

Use of our report

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

Jack Draycott (Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor London, United Kingdom

26 June 2024

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“The Board remains fully committed to the primary goal of opening up the next prolific onshore U.S. oil and gas play.”

Consolidated income statement

For the year ended 31 December 2023

	Notes	2023 US\$'000	2022 US\$'000
Revenue	6	25,225	41,062
Operating and transportation expenses		(6,964)	(4,458)
Production taxes		(1,878)	(3,318)
Depreciation, depletion and amortisation	14	(9,607)	(12,666)
Gain on derivative contracts	15	412	1,781
Gross profit		7,188	22,401
Administrative expenses		(5,997)	(4,834)
Share-based payments		(6)	(210)
Foreign exchange (losses)/gains	8	(2,776)	6,102
Finance income		-	3
Finance costs	7	(3,472)	(2,236)
(Loss)/profit on ordinary activities before taxation	8	(5,063)	21,226
Taxation credit/(charge)	11	1,560	(1,955)
(Loss)/profit for the year attributable to owners of the parent company		(3,503)	19,271
(Loss)/profit per Ordinary Share			
Basic, cents per share	12	(0.21)	1.26
Diluted, cents per share	12	(0.21)	1.18

The notes on pages 56 to 85 form part of the financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	2023 US\$'000	2022 US\$'000
(Loss)/profit for the year attributable to owners of the parent company	(3,503)	19,271
Other comprehensive income/(loss)		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Foreign currency translation differences on foreign operations	2,772	(6,205)
Total comprehensive (loss)/income for the year attributable to owners of the parent company	(731)	13,066

The notes on pages 56 to 85 form part of the financial statements

Consolidated balance sheet

As at 31 December 2023

Company No 04573663

	Notes	2023 US\$'000	2022 US\$'000
Non-current assets			
Exploration and evaluation assets	13	49,941	37,986
Property and equipment	14	50,840	51,805
Derivative contracts	15	-	175
		100,781	89,966
Current assets			
Trade and other receivables	17	7,897	4,637
Cash and cash equivalents	18	3,611	8,996
Derivative contracts	15	278	1,133
		11,786	14,766
Total assets		112,567	104,732
Current liabilities			
Trade and other payables	19	(6,983)	(12,520)
Borrowings	20	(28,950)	(14,572)
Lease liabilities		(39)	-
		(35,972)	(27,092)
Non-current liabilities			
Borrowings	20	(6,401)	(10,821)
Lease liabilities		(31)	-
Deferred tax	21	(395)	(1,955)
Provisions	22	(5,067)	(4,138)
		(11,894)	(16,914)
Total liabilities		(47,866)	(44,006)
Net assets		64,701	60,726
Equity			
Share capital	23	42,568	42,412
Share premium account	25	71,735	66,847
Shares to be issued	25	-	539
Warrant reserve	24	1,557	1,557
Share-based payment reserve	25	3,270	3,284
Cumulative translation reserve	25	(13,212)	(15,984)
Accumulated deficit	25	(41,217)	(37,929)
Equity attributable to owners of the parent company		64,701	60,726

The financial statements on pages 48 to 55 were approved by the Directors and authorised for issue on 26 June 2024 and are signed on its behalf by,

CJ Eadie

Group Finance Director

The notes on pages 56 to 85 form part of the financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Share capital US\$'000	Share premium account US\$'000	Shares to be issued US\$'000	Warrant reserve US\$'000	Share-based payment reserve US\$'000	Cumulative translation reserve US\$'000	Accumulated deficit US\$'000	Total US\$'000
As at 1 January 2022	42,065	52,875	-	89	3,065	(9,779)	(57,721)	30,594
<i>Transactions with owners in their capacity as owners:</i>								
Issue of equity shares	347	17,023	-	-	-	-	-	17,370
Exercise of warrants	-	-	539	(122)	-	-	122	539
Expenses of issue of equity shares	-	(1,461)	-	-	408	-	-	(1,053)
Warrant exercise extension	-	(33)	-	33	-	-	-	-
Grant of warrants	-	(1,557)	-	1,557	-	-	-	-
Share-based payments	-	-	-	-	210	-	-	210
Transfer to accumulated deficit in respect of lapsed options	-	-	-	-	(387)	-	387	-
Transfer to accumulated deficit in respect of expired warrants	-	-	-	-	(12)	-	12	-
Total transactions with owners in their capacity as owners	347	13,972	539	1,468	219	-	521	17,066
Profit for the year	-	-	-	-	-	-	19,271	19,271
<i>Other comprehensive loss:</i>								
Currency translation differences	-	-	-	-	-	(6,205)	-	(6,205)
Total other comprehensive loss for the year	-	-	-	-	-	(6,205)	-	(6,205)
Total comprehensive income for the year	-	-	-	-	-	(6,205)	19,271	13,066
As at 31 December 2022	42,412	66,847	539	1,557	3,284	(15,984)	(37,929)	60,726
<i>Transactions with owners in their capacity as owners:</i>								
Issue of equity shares	156	5,318	-	-	-	-	-	5,474
Exercise of warrants	-	-	(539)	-	-	-	-	(539)
Expenses of issue of equity shares	-	(430)	-	-	195	-	-	(235)
Share-based payments	-	-	-	-	6	-	-	6
Transfer to accumulated deficit in respect of expired options	-	-	-	-	(215)	-	215	-
Total transactions with owners in their capacity as owners	156	4,888	(539)	-	(14)	-	215	4,706
Loss for the year	-	-	-	-	-	-	(3,503)	(3,503)
<i>Other comprehensive income:</i>								
Currency translation differences	-	-	-	-	-	2,772	-	2,772
Total other comprehensive income for the year	-	-	-	-	-	2,772	-	2,772
Total comprehensive loss for the year	-	-	-	-	-	2,772	(3,503)	(731)
As at 31 December 2023	42,568	71,735	-	1,557	3,270	(13,212)	(41,217)	64,701

The notes on pages 56 to 85 form part of the financial statements

Consolidated cash flow statement

For the year ended 31 December 2023

	2023 US\$'000	2022 US\$'000
Operating activities		
(Loss)/profit for the year before taxation	(5,063)	21,226
Adjustments for:		
Finance income	-	(3)
Finance costs	3,472	2,236
Depreciation and depletion of property and equipment	9,630	12,668
Share-based payments	6	210
Unrealised foreign exchange losses/(gains)	2,772	(5,672)
Operating cash inflow before movements in working capital	10,817	30,665
Increase in trade and other receivables	(403)	(2,850)
Unrealised loss/(gain) on derivative contracts	1,029	(1,308)
Increase in trade and other payables	191	723
Cash generated from operations	11,634	27,230
Income tax paid	-	-
Net cash generated from operating activities	11,634	27,230
Investing activities		
Additions to exploration and evaluations assets	(21,643)	(13,297)
Business combination	-	(37,880)
Acquisition of oil and gas properties	-	(3,362)
Additions to oil and gas properties	(10,467)	(10,482)
(Decrease)/increase in capital expenditures related payables	(5,754)	9,300
Proceeds on disposal of oil and gas properties	2,262	-
Insurance proceeds received in respect of exploration and evaluation assets	7,712	-
Grant funds received in respect of exploration and evaluation assets	302	-
Interest received	-	3
Net cash used in investing activities	(27,588)	(55,718)
Financing activities		
Net proceeds from issue of shares	3,700	16,317
Exercise of warrants	-	539
Proceeds from borrowings	13,260	30,500
Repayment of borrowings	(4,244)	(8,931)
Repayment of lease liabilities	(7)	-
Interest and fees paid on borrowings	(2,140)	(2,218)
Net cash generated from financing activities	10,569	36,207
Net (decrease)/increase in cash and cash equivalents	(5,385)	7,719
Cash and cash equivalents at beginning of year	8,996	1,811
Effect of foreign exchange rate changes	-	(534)
Cash and cash equivalents at end of year	3,611	8,996

The notes on pages 56 to 85 form part of the financial statements

Company balance sheet

As at 31 December 2023

Company No 04573663

	Notes	2023 US\$'000	2022 US\$'000
Non-current assets			
Investments	16	52,414	43,850
Property and equipment	14	60	6
		52,474	43,856
Current assets			
Trade and other receivables	17	96	82
Cash and cash equivalents	18	40	118
		136	200
Total assets		52,610	44,056
Current liabilities			
Trade and other payables	19	(450)	(459)
Lease liabilities		(39)	-
		(489)	(459)
Non-current liabilities			
Lease liabilities		(31)	-
Total liabilities		(520)	(459)
Net assets		52,090	43,597
Equity			
Share capital	23	42,568	42,412
Share premium account	25	71,735	66,847
Shares to be issued	25	-	539
Warrant reserve	24	1,557	1,557
Share-based payment reserve	25	3,270	3,284
Cumulative translation reserve	25	(10,968)	(13,427)
Accumulated deficit	25	(56,072)	(57,615)
Total equity		52,090	43,597

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

The profit for the Company for the year ended 31 December 2023 is US\$1.3 million (2022: loss US\$0.5 million).

The financial statements on pages 48 to 55 were approved by the Directors and authorised for issue on 26 June 2024 and are signed on its behalf by,

CJ Eadie

Group Finance Director

The notes on pages 56 to 85 form part of the financial statements

Company statement of changes in equity

For the year ended 31 December 2023

	Share capital US\$'000	Share premium account US\$'000	Shares to be issued US\$'000	Warrant reserve US\$'000	Share- based payment reserve US\$'000	Cumulative translation reserve US\$'000	Accumulated deficit US\$'000	Total US\$'000
As at 1 January 2022	42,065	52,875	-	89	3,065	(8,247)	(57,654)	32,193
<i>Transactions with owners in their capacity as owners:</i>								
Issue of equity shares	347	17,023	-	-	-	-	-	17,370
Exercise of warrants	-	-	539	(122)	-	-	122	539
Expenses of issue of equity shares	-	(1,461)	-	-	408	-	-	(1,053)
Warrant exercise extension	-	(33)	-	33	-	-	-	-
Grant of warrants	-	(1,557)	-	1,557	-	-	-	-
Share-based payments	-	-	-	-	210	-	-	210
Transfer to accumulated deficit in respect of lapsed options	-	-	-	-	(387)	-	387	-
Transfer to accumulated deficit in respect of expired warrants	-	-	-	-	(12)	-	12	-
Total transactions with owners in their capacity as owners	347	13,972	539	1,468	219	-	521	17,066
Loss for the year	-	-	-	-	-	-	(482)	(482)
<i>Other comprehensive loss:</i>								
Currency translation differences	-	-	-	-	-	(5,180)	-	(5,180)
Total other comprehensive loss for the year	-	-	-	-	-	(5,180)	-	(5,180)
Total comprehensive loss for the year	-	-	-	-	-	(5,180)	(482)	(5,662)
As at 31 December 2022	42,412	66,847	539	1,557	3,284	(13,427)	(57,615)	43,597
<i>Transactions with owners in their capacity as owners:</i>								
Issue of equity shares	156	5,318	-	-	-	-	-	5,474
Exercise of warrants	-	-	(539)	-	-	-	-	(539)
Expenses of issue of equity shares	-	(430)	-	-	195	-	-	(235)
Share-based payments	-	-	-	-	6	-	-	6
Transfer to accumulated deficit in respect of expired options	-	-	-	-	(215)	-	215	-
Total transactions with owners in their capacity as owners	156	4,888	(539)	-	(14)	-	215	4,706
Profit for the year	-	-	-	-	-	-	1,328	1,328
<i>Other comprehensive income:</i>								
Currency translation differences	-	-	-	-	-	2,459	-	2,459
Total other comprehensive income for the year	-	-	-	-	-	2,459	-	2,459
Total comprehensive income for the year	-	-	-	-	-	2,459	1,328	3,787
As at 31 December 2023	42,568	71,735	-	1,557	3,270	(10,968)	(56,072)	52,090

The notes on pages 56 to 85 form part of the financial statements

Company cash flow statement

For the year ended 31 December 2023

	2023 US\$'000	2022 US\$'000
Operating activities		
Profit/(loss) before taxation	1,328	(482)
Adjustments for:		
Finance income	(2,595)	(1,215)
Finance costs	-	272
Depreciation of property and equipment	23	2
Share-based payments	6	210
Unrealised foreign exchange gains	(18)	(1,407)
Operating cash outflow before movements in working capital	(1,256)	(2,620)
Increase in trade and other receivables	(14)	(17)
(Decrease)/Increase in trade and other payables	(9)	16
Net cash used in operating activities	(1,279)	(2,621)
Investing activities		
Loans to subsidiary undertakings	(2,493)	(11,330)
Net cash used in investing activities	(2,493)	(11,330)
Financing activities		
Net proceeds from the issue of shares	3,700	16,317
Proceeds from exercise of warrant	-	539
Repayment of lease liabilities	(7)	-
Repayment of borrowings	-	(4,060)
Interest paid on borrowings	-	(287)
Net cash generated from financing activities	3,693	12,509
Net decrease in cash and cash equivalents	(79)	(1,442)
Cash and cash equivalents at beginning of year	118	1,574
Effect of foreign exchange rate changes	1	(14)
Cash and cash equivalents at end of year	40	118

The notes on pages 56 to 85 form part of the financial statements

Notes to the financial statements

For the year ended 31 December 2023

1. Corporate information

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

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

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

2. Adoption of new and revised standards

Standards adopted during the year

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

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

- Amendments to IFRS 17 - *Insurance contracts*
- Amendments to IFRS 17 - *Initial application of IFRS 17 and IFRS 9 - comparative information*
- Amendments to IAS 1 and IFRS practice statement 2 - *Disclosure of accounting policies*
- Amendments to IAS 8 - *Definition of accounting estimates*
- Amendments to IAS 12 - *Deferred tax related assets and liabilities arising from a single transaction*
- Amendments to IAS 12 - *International tax reform - pillar two model rules*

Standards issued but not yet effective

Any new or amended Accounting Standards or interpretations that are not yet mandatory (and in some cases, had not yet been endorsed by the UK Endorsement Board) have not been early adopted by the Group for the year ended 31 December 2023.

They are as follows:

- Amendments to IAS 1 - *Classification of liabilities as current or non-current*
- Amendments to IFRS 16 - *Lease liability in a sale and leaseback*

- Amendments to IAS 1 - *Non-current liabilities with covenants*
- Amendments to IAS 7 and IFRS 7 - *Supplier finance arrangements*
- Amendments to IAS 21 - *Lack of exchangeability*
- Amendments to IFRS 10 and IAS 28 - *Sale or contribution of assets between an investor and its associate or joint venture*
- IFRS S1 - *General requirements for disclosure of sustainability - related financial information*
- IFRS S2 - *Climate-related disclosures*

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

3. Material accounting policies

Basis of preparation

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

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

The consolidated and the Company financial statements are presented in United States dollars (“US\$”). All amounts have been rounded to the nearest thousand unless otherwise indicated.

The functional currency of the Company is pounds sterling (“£”) and that of the U.S. subsidiaries is US\$.

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

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

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

Going concern

The Directors have prepared cashflow forecasts for the Group and Parent Company for the period to 31 December 2025 based on their assessment of both the discretionary and the non-discretionary cash requirements of the Group during this period and based on a range of sensitivities and scenarios.

Notes to the financial statements

3. Material accounting policies continued

These cashflow forecasts include the forecast revenues from, and the operating costs of, the Group's operations, together with all committed development expenditure and cashflows related to the drilling of the State 36-2R well and the expected insurance recoveries from the drilling operations. As disclosed in note 13, a well incident happened during the year which led to the drilling of the new State 36-2R well. The Group has comprehensive well control insurance coverage and the Board expects to recover insurance proceeds from the well incident for the cost of drilling the new State 36-2R well. Should the insurance proceeds be delayed or lower than expected, the Group could require further funding to meet its commitments within the going concern assessment period.

In addition, as at 31 December 2023, the Group and the Parent Company had existing borrowings that are payable within 12 months (current) from the end of the reporting period. To meet this obligation, the Group and the Parent Company will require debt refinancing of existing borrowings or raising of additional funding.

As such, the Group and the Parent Company's ability to continue as going concerns is dependent on securing insurance proceeds and debt refinancing of existing borrowings or raising additional funding which are not guaranteed. This indicates the existence of a material uncertainty which may cast significant doubt over the Group and the Parent Company's ability to continue as going concerns, and therefore, the Group and the Parent Company may be unable to realise their assets and discharge their liabilities in the normal course of business.

Following detailed discussions, the Directors are confident that the Group and the Parent Company will be able to secure insurance recoveries as per above, refinance their existing borrowings and raise additional funding to enable the Group and the Parent Company to continue in operation for at least the next twelve months from the date of approval of the financial statements. The Directors have extensive experience in raising capital for projects and ventures and remain confident in the Group and the Parent Company's ability to raise the capital needed to maintain and deliver on its commitments and continue as a going concern.

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

Basis of consolidation

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

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

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

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

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

Business combinations and asset acquisitions

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

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

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

The Group does not recognise a liability for contingent consideration in respect of asset acquisitions until the related activity occurs.

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.

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.

Notes to the financial statements

3. Material accounting policies continued

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.

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 E&E assets.

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

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.

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 E&E assets at cost, subject to meeting a pool-wide impairment test in accordance with the accounting policy for impairment of E&E assets set out below.

Impairment of exploration and evaluation assets

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

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

The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cashflow expected to be derived

from production of commercial reserves. Where the E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full.

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

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

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

Property and equipment

Oil and gas properties

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

Oil and gas properties are depleted using the unit-of-production method based on production for the period divided by the Group's estimated total proved and probable reserve volumes (before royalties) of the geographic region concerned. Production and reserves volumes for natural gas are converted at the energy equivalent of six thousand cubic feet of natural gas to one barrel of oil. Estimates of future development costs for developing the proved and probable reserves are included in the depletion base.

Office equipment and right-of-use assets

Office equipment and right-of-use assets are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of office equipment and right-of-use assets 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:

Office equipment	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.

Notes to the financial statements

3. Material accounting policies continued

An item of office equipment and right-of-use asset 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 is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of property and equipment

In accordance with the requirements of IAS 36 *Impairment of assets*, at each reporting date, the Directors assess whether indications exist that the carrying value of an asset may be impaired. If there are indicators of impairment the Directors estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's, fair value less costs to sell and its value-in-use, and is determined on a portfolio basis, based on geographical location.

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

Joint arrangements

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

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

The Company classifies its interests in joint arrangements as joint operations where the Company has both the right to assets and obligations for the liabilities of the joint arrangement. It accounts for its interests in joint operations by recognising its 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 cashflows measured in accordance with the terms of the Joint Operating agreement and the accounting treatment reflects the agreement's commercial effect.

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

Foreign currencies

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

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

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

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

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

Notes to the financial statements

3. Material accounting policies continued

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.

Taxation

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted at the reporting date.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the

current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

Investments and other financial instruments

Recognition of financial assets and financial liabilities

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

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

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

Fair value measurement

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

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

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

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

Notes to the financial statements

3. Material accounting policies continued**Derecognition of financial assets and financial liabilities**

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

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

Impairment of financial assets

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

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

Trade and other receivables

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.

Trade and other receivables include prepayments which were previously presented as a separate line on the Balance Sheet. The comparative for the year ended 31 December 2022 has been adjusted accordingly for consistency.

Cash and cash equivalents

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

Derivative contracts

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

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

Trade and other payables

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

Borrowings

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

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

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

Warrants

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

Provisions

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

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

Notes to the financial statements

3. Material accounting policies continued

Decommissioning

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

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

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

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

Share-based payments

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

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

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

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

Revenue recognition

Natural Gas, NGLs and Oil

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

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

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

Verified emission reductions ("VERs")

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

Segmental reporting

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

Notes to the financial statements

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

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

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

Critical judgements

Exploration and evaluation assets - Group

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

There has been no transfer of exploration and evaluation assets during the year ended 31 December 2023.

Business combination and asset acquisitions - Group

During the year ended 31 December 2023, the Group acquired the remaining 25% working interest in the WSU in the Paradox Basin, Utah from RSOC.

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

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

The Directors consider that the acquisition meets the requirements of the concentration test under IFRS 3 based on the fact that the fair value of the assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The acquisition has, therefore been accounted for as an acquisition of assets and is presented within exploration and evaluation assets. See note 13.

Estimations

Impairment and impairment reversals - Group

The recoverable amounts of CGUs and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to dispose. These calculations require the use of estimates and assumptions including information on

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

Recoverability of loans to subsidiary undertakings - Company only

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

In accordance with IFRS 9 *Financial instruments*, as the subsidiary undertakings cannot repay the loans at the reporting date, the Board has made an assessment of expected credit losses ("ECL"). The Group has not made any provision for impairment of its U.S. non-current assets and is expecting to generate profits in the future. As a result, the Board do not consider that any further provision for ECL is required and, therefore, subject to the recognition of exchange differences, a cumulative lifetime ECL of US\$29.9 million has been recognised at 31 December 2023 (2022: US\$28.4 million).

At 31 December 2023, the Company has total loans in its directly held subsidiaries of US\$82.8 million (2022: US\$72.3 million). See note 16.

Reserve estimates

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

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

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

Notes to the financial statements

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

Decommissioning costs will be incurred by the Group at the end of the operating life of certain facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditures can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In addition, the Group determines the appropriate discount rate at the end of each reporting period. The Group uses a risk-free discount rate to determine the present value of the estimated future cash outflows to settle the obligation and this may change in response to numerous market factors. As a result, there could be significant adjustments to the provisions established which would affect future financial results. See note 22.

Derivative contracts

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

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

5. Segmental information

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

6. Revenue

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

	2023 US\$'000	2022 US\$'000
Crude oil	22,609	35,257
Natural gas liquids	1,657	3,040
Natural gas	959	2,765
	25,225	41,062

7. Finance costs

	2023 US\$'000	2022 US\$'000
Loan interest and fees	2,888	1,880
Amortisation of debt costs	215	236
Unwinding of discount on decommissioning	369	120
	3,472	2,236

Notes to the financial statements

8. (Loss)/profit on ordinary activities before taxation

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

	2023 US\$'000	2022 US\$'000
Gains on derivative contracts	(412)	(1,781)
Depreciation and depletion of property and equipment	9,630	12,668
Staff costs excluding share-based payments	2,664	1,830
Share-based payments	6	210
Expense relating to short-term leases	30	31
Foreign exchange losses/(gains) ¹	2,776	(6,102)

¹ Foreign exchange losses/(gains) include a loss of US\$2.7 million (2022: gain US\$5.6 million) in respect of the translation of GBP designated loans between the Company and its U.S. subsidiary entities at 31 December 2023. See note 16.

9. Auditor's remuneration

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

	2023 US\$'000	2022 US\$'000
Audit of these financial statements	207	161

10. Staff costs

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

	Group		Company	
	2023 Number	2022 Number	2023 Number	2022 Number
Office and management	2	2	1	1
Operations	4	1	1	1
	6	3	2	2

Their aggregate remuneration comprised:

	Group		Company	
	2023 US\$'000	2022 US\$'000	2023 US\$'000	2022 US\$'000
Wages and salaries	2,106	1,380	668	640
Social security costs	150	91	84	81
Other pension costs	119	106	44	44
Share-based payments	5	19	2	10
	2,380	1,596	798	775

Included within Company wages and salaries is US\$0.4 million (2022: US\$0.4 million) which relates to the activities of its subsidiary entities.

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

Notes to the financial statements

11. Taxation

	2023 US\$'000	2022 US\$'000
Current tax:		
Current year	-	-
Deferred tax:		
Origination and reversal of temporary differences	(1,601)	1,955
Adjustment in respect of prior years	41	-
	(1,560)	1,955
Tax (credit)/charge on (loss)/profit for the year	(1,560)	1,955

The (credit)/charge for the year can be reconciled to the (loss)/profit per the income statement as follows:

	2023 US\$'000	2022 US\$'000
(Loss)/profit before tax	(5,063)	21,226
(Loss)/profit multiplied by applicable tax rate - 25% U.S. (2022: 25% U.S.)	(1,266)	5,307
Effects of:		
Share-based payments	2	52
Prior year U.S. tax losses now recognised	-	(3,400)
Deferred tax not previously recognised	(337)	(85)
Unrelieved tax losses carried forward	-	81
Adjustments in respect of prior years	41	-
Tax (credit)/charge on (loss)/profit for the year	(1,560)	1,955

12. (Loss)/profit per ordinary share

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

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

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

	2023 US\$'000	2022 US\$'000
(Losses)/profits		
(Losses)/profits for the purpose of basic and diluted (loss)/profit per Ordinary Share being net (loss)/profit for the year	(3,503)	19,271

Notes to the financial statements

12. (Loss)/profit per ordinary share continued

	2023 Number '000	2022 Number '000
Number of shares		
Weighted average number of shares for the purpose of basic (loss)/profit per Ordinary Share	1,644,490	1,533,110
Weighted average number of shares for the purpose of basic (loss)/profit per Ordinary Share	1,644,490	1,533,110
Dilutive share options	-	42,526
Dilutive warrants	-	55,721
Weighted average number of shares for the purpose of diluted (loss)/profit per Ordinary Share	1,644,490	1,631,357
(Loss)/profit per Ordinary Share		
Basic, cents per share	(0.21)	1.26
Diluted, cents per share	(0.21)	1.18

Due to the losses incurred from continuing operations in the year ended 31 December 2023, there is no dilutive effect from the existing share options or warrants.

13. Exploration and evaluation assets

	US\$'000
Cost	
At 1 January 2022	22,773
Additions	15,213
At 1 January 2023	37,986
Additions	22,643
Decommissioning - change in estimates	177
Insurance proceeds	(10,563)
Funds received in lieu of grants	(302)
At 31 December 2023	49,941

Paradox acquisition

On 21 December 2022, the Group announced that it would acquire the remaining 25% working interest in the WSU in the Paradox Basin, Utah from Rockies Standard Oil Company LLC ("RSOC"). As a result, the Group now holds a 100% working interest in the WSU.

Under the term of the acquisition agreement, total consideration of up to US\$3 million is payable by the issue of up to 40,449,284 new Ordinary Shares of 0.1 pence each in Zephyr Energy plc, at a price of 6.05 pence per new Ordinary Share.

The new Ordinary Shares would be issued in two tranches:

- A first tranche of 13,483,095 new Ordinary Shares to be issued in settlement of loan notes of US\$1 million, on completion of the acquisition.
- A second tranche of 26,966,189 new Ordinary Shares to be issued in settlement of loan notes of US\$2 million, upon Zephyr's final investment decision with respect to the commencement of operations at the Powerline Road gas processing plant which was acquired in August 2022. If the final investment decision is not made by 1 January 2029 the Group has no further obligation to issue the second tranche.

On 10 February 2023, the Group announced that it had completed the acquisition and issued 13,483,095 new Ordinary Shares of 0.1 pence each in Zephyr Energy plc, at a price of 6.05 pence per new Ordinary Share, in respect of the first tranche. See notes 23 and 26.

Notes to the financial statements

13. Exploration and evaluation assets continued

State 36-2 well control incident

On 7 April 2023, as workover operations were being completed on State 36-2, the well experienced a significant control issue. All relevant authorities were notified and a specialist well control team recommended by the Group's insurers was deployed to bring the well under control as quickly as possible. Well control efforts were successful and remediation and clean-up operations were completed. A third-party confirmatory environmental survey found no evidence of lingering environmental impact. The Group also received confirmation from the State of Utah's Division of Oil, Gas and Mining that the remediation work performed on the well site was completed in accordance with the State's requirements.

The Group has comprehensive well control insurance coverage and the Board expects to recover substantially all costs associated with the incident. The Group's policy covers expenses up to the policy limit of US\$20 million for clean-up, remediation, plugging and abandonment of the original well, and the cost of a new well of similar design up to the point at which the incident occurred.

At 31 December 2023, a total of US\$7.7 million had been recovered from the Group's insurer. A receivable of US\$2.9 million has been recognised in respect of expenditure not yet recovered at 31 December 2023, which has been recovered in full since the year end. See note 17.

Acquisition of additional acreage

On 15 August 2023, the Group announced that it had acquired an additional 640 leased acres in the Paradox Basin at a cost of US\$7,230. Following the acquisition, the Group now operates a total of over 46,000 gross acres in the Paradox Basin, the majority of which it holds as operator with a 100% interest.

Salt Wash project

On 18 October 2023, the Group announced a proposed farm-in to a minimum 75% working interest in a 1,047-acre leasehold position in the Salt Wash Field, a previously producing asset with proven oil, gas and helium reserves, located three miles to the south of the Group's WSU.

The key terms of the farm-in which completed on 6 September 2023, were as follows:

- An initial payment of US\$0.3 million due within 30 days of the transaction completing.
- A second payment of US\$0.3 million due within 60 days of the transaction completing.
- The Group is committed to drill, log and case one vertical delineation well, with spudding prior to 30 June 2024 to obtain a 100% share in the leasehold.
- The seller has the option to back-in to the lease holding at a 25% working interest, with no historic cost exposure, once the delineation well is drilled and a field development plan has been proposed by Zephyr. Thereafter, the seller would become a fully paying 25% working interest partner.

The total consideration of US\$0.6 million has been treated as an acquisition of assets at 31 December 2023.

In June 2024, the Group announced that the drilling deadline had been extended to 1 September 2024.

U.S. Department of energy funding

On 9 December 2022, the Group announced that it had secured additional US\$1 million research grant funding from the University of Utah's Energy and Geoscience Institute ("EGI"), to be utilised for data gathering during the drilling of the State 36-2 LN-CC well. The grant was not concluded during the year ended 31 December 2023 and the Group received US\$0.3 million for historical expenditure in lieu of this award. The carrying value of the Group's exploration and evaluation assets have been presented net of the funds received.

Impairment

The Directors assessed the indicators of impairment as set out in IFRS 6 and no indicators or impairment were identified. On this basis the Directors have satisfied themselves that there was no requirement to perform an impairment test at 31 December 2023 and, as a result, no provision for impairment has been made in respect of these assets at 31 December 2023 (2022: nil). See note 4.

Notes to the financial statements

14. Property and equipment

	Group				Company		
	Oil and gas properties US\$'000	Office equipment US\$'000	Right-of-use assets US\$'000	Total US\$'000	Office equipment US\$'000	Right-of-use assets US\$'000	Total US\$'000
Cost							
At 1 January 2022	12,902	27	-	12,929	27	-	27
Business combination	40,199	-	-	40,199	-	-	-
Acquisitions	3,362	-	-	3,362	-	-	-
Additions	9,757	-	-	9,757	-	-	-
Exchange differences	-	(3)	-	(3)	(3)	-	(3)
At 1 January 2023	66,220	24	-	66,244	24	-	24
Additions	10,468	-	77	10,545	-	77	77
Disposals	(2,792)	-	-	(2,792)	-	-	-
Decommissioning - change in estimates	463	-	-	463	-	-	-
Exchange differences	-	1	-	1	1	-	1
At 31 December 2023	74,359	25	77	74,461	25	77	102
Accumulated depreciation							
At 1 January 2022	1,755	18	-	1,773	18	-	18
Charge for the year	12,666	2	-	12,668	2	-	2
Exchange differences	-	(2)	-	(2)	(2)	-	(2)
At 1 January 2023	14,421	18	-	14,439	18	-	18
Charge for the year	9,607	2	21	9,630	2	21	23
Disposals	(449)	-	-	(449)	-	-	-
Exchange differences	-	1	-	1	1	-	1
At 31 December 2023	23,579	21	21	23,621	21	21	42
Carrying amount							
At 31 December 2023	50,780	4	56	50,840	4	56	60
At 31 December 2022	51,799	6	-	51,805	6	-	6
At 1 January 2022	11,147	9	-	11,156	9	-	9

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

	2023 US\$'000	2022 US\$'000
Depreciation, depletion and amortisation	9,607	12,666
Administrative expenses	23	2
	9,630	12,668

Impairment

At 31 December 2023, the Directors considered the requirements of IAS 36 *Impairment of assets* in respect of its oil and gas properties. They have satisfied themselves that there were no indicators of impairment and, therefore, there was no requirement to perform an impairment test. As a result, no provision for impairment has been made in respect of these assets at 31 December 2023 (2022: nil). See note 4.

Notes to the financial statements

15. Derivative contracts

During the year ended 31 December 2023, the Group entered into the following derivative contracts to mitigate its exposure to fluctuations in commodity prices.

Oil Contracts	Volume Bbl	Pricing point	Strike price per bbl US\$	Term	Fair value 31 December 2023 US\$'000
Swap	7,000	WTI NYMEX	81.50	1 April 2022 to 30 April 2023	Settled
Swap	7,000	WTI NYMEX	81.33	1 May 2023 to 31 May 2023	Settled
Swap	5,000	WTI NYMEX	80.81	1 June 2023 to 30 June 2023	Settled
Swap	5,000	WTI NYMEX	80.17	1 July 2023 to 31 July 2023	Settled
Swap	5,000	WTI NYMEX	79.49	1 August 2023 to 31 August 2023	Settled
Swap	4,000	WTI NYMEX	78.72	1 September 2023 to 30 September 2023	Settled
Swap	4,000	WTI NYMEX	78.05	1 October 2023 to 31 October 2023	Settled
Swap	3,000	WTI NYMEX	77.40	1 November 2023 to 30 November 2023	Settled
Swap	3,000	WTI NYMEX	76.74	1 December 2023 to 31 December 2023	Settled

At 31 December 2023, the Group had the following outstanding derivative contract:

Oil Contracts	Volume Bbl	Pricing point	Strike price per bbl US\$	Term	Fair value 31 December 2023 US\$'000
Swap	27,000	WTI NYMEX	82.20	1 January 2024 to 31 March 2024	278

The fair value of the outstanding contracts at 31 December 2023 has been recognised as follows:

	2023 US\$'000	2022 US\$'000
Non-current assets	-	175
Current assets	278	1,133
	278	1,308

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

The recognised gain on derivative contracts was as follows:

	2023 US\$'000	2022 US\$'000
Realised gain	1,441	473
Change in fair value	(1,029)	1,308
	412	1,781

Notes to the financial statements

16. Investments

	Company		Total US\$'000
	Shares in subsidiary undertakings US\$'000	Loans to subsidiary undertakings US\$'000	
Cost			
At 1 January 2022	5,263	66,851	72,114
Additions	-	12,790	12,790
Exchange differences	(558)	(7,375)	(7,933)
At 1 January 2023	4,705	72,266	76,971
Additions	-	6,089	6,089
Exchange differences	250	3,983	4,233
At 31 December 2023	4,955	82,338	87,293
Impairment			
At 1 January 2022	5,263	31,788	37,051
Exchange differences	(558)	(3,372)	(3,930)
At 1 January 2023	4,705	28,416	33,121
Exchange differences	250	1,508	1,758
At 31 December 2023	4,955	29,924	34,879
Carrying amount			
At 31 December 2023	-	52,414	52,414
At 31 December 2022	-	43,850	43,850

Company

The Company has outstanding loans made to its subsidiaries which incur interest at a rate of 1% above the UK base rate. The loans are due for repayment once the subsidiaries are generating surplus cash flows from their revenue-generating activities, having met their operating, administrative and capital expenditure. This is not anticipated to happen within the next twelve months and, therefore, the loans are presented within non-current assets. The Board has assessed the recoverability of the loans and investments based on the expected future cashflows arising to the Company from its subsidiary entities and consider that no additional provision (2022: nil) should be recognised in the period.

Notes to the financial statements

16. Investments continued

The Company had investments in the following subsidiary undertakings as at 31 December 2023:

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

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

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

The registered office address for all companies registered in the U.S. is 7310 W 52nd Avenue, Suite A116, Arvada, Colorado, 80002.

17. Trade and other receivables

	Group		Company	
	2023 US\$'000	2022 US\$'000	2023 US\$'000	2022 US\$'000
Trade receivables	4,577	3,919	-	-
VAT recoverable	32	41	32	41
Other receivables	3,119	330	-	-
Prepayments	169	347	64	41
	7,897	4,637	96	82

Trade receivables are due from third-party working interest operators. The Group consistently assesses the collectability of these receivables and at 31 December 2023 do not consider that any allowance for credit losses is required.

At 31 December 2023, other receivables include the sum of US\$0.2 million (2022: US\$0.3 million) in respect of amounts due in respect of settled derivative contracts.

At 31 December 2023, other receivables include the sum of US\$2.9 million (2022: nil) in respect of insurance recoveries relating to the well incident which took place during the year, and which had not yet been recovered. All insurance proceeds have been recovered in full since 31 December 2023. See note 13.

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

18. Cash and cash equivalents

Cash and cash equivalents held by the Group and the Company as at 31 December 2023 were US\$3.6 million and US\$40,000 respectively (2022: US\$9 million, US\$0.1 million). The Directors consider that the carrying amount of these assets approximate to their fair value and do not believe that the Group is exposed to any significant credit risk on its cash.

19. Trade and other payables

	2023 US\$'000	Group 2022 US\$'000	2023 US\$'000	Company 2022 US\$'000
Trade payables	5,115	8,881	85	121
Taxes and social security	26	21	26	21
Other payables	112	110	-	1
Accruals	1,730	3,508	339	316
	6,983	12,520	450	459

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

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

No interest is generally charged on balances outstanding.

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

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

20. Borrowings

	2023 US\$'000	Group 2022 US\$'000
FIBT facility		
Term loan	10,943	15,129
Revolving credit	15,000	8,000
Capitalised debt issue costs	(119)	(239)
	25,824	22,890
SGRI		
Revolving credit	9,494	2,580
Capitalised debt issue costs	(56)	(77)
	9,438	2,503
Promissory note		
Loan	89	-
Total borrowings	35,351	25,393

Notes to the financial statements

20. Borrowings continued

	Group	
	2023 US\$'000	2022 US\$'000
Current borrowings	28,950	14,572
Non-current borrowings	6,401	10,821
	35,351	25,393

Remaining contractual maturity analysis

The following table details the Group's remaining maturity for its borrowings. The table has been drawn up based on the undiscounted cash flows based on the earliest date on which the borrowings are required to be paid. The table includes both principal and interest cash flows.

	Group	
	2023 US\$'000	2022 US\$'000
Maturity analysis		
Less than 6 months	13,109	2,543
6 months to 1 year	18,103	14,037
1 year to 2 years	5,086	5,086
2 years to 5 years	1,699	6,782
	37,997	28,448

First International Bank & Trust ("FIBT")

On 16 February 2022, the Group entered into credit facility agreements with FIBT through its U.S. subsidiaries. Under the terms of the agreements the Group received a term loan of US\$18 million, repayable by 48 monthly instalments, and a 12-month revolving credit facility of US\$10 million, both of which incurred interest at a rate of 6.74%.

The revolving credit facility has a standard redetermination every six months and was increased to a commitment of up to US\$13 million in October 2022, incurring interest at a rate of 9.74%.

In October 2023, the repayment term of the revolving credit facility was extended to 16 October 2024, and the interest charge was adjusted to a variable rate equal to the Wall Street Prime Rate plus 2.5% subject to a minimum rate of 6.74%.

On 21 December 2023, the revolving credit facility was increased to a commitment of up to US\$15.2 million with the same repayment and interest terms.

At 31 December 2023, the Group had drawn US\$15 million in respect of the facility.

In June 2024, the Group completed its semi-annual redetermination of the existing revolving credit facility and entered into a new facility agreement with FIBT. Under the terms of the agreement, the Group received a new term loan of US\$5.6 million. The new term loan will amortise monthly over four years and has an interest rate of 10% per annum.

The revolving credit is subject to a covenant which is measured on an annual basis. The Group was in full compliance with the terms of the covenant in the periods reported.

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

Notes to the financial statements

20. Borrowings continued**SGRI**

On 19 December 2022, the Group entered into a facility agreement with an experienced U.S. based institutional investor through its U.S. subsidiary Zephyr Williston LLC. Under the terms of the agreement the Group received a 12-month revolving credit facility of up to US\$8 million incurring interest at a rate 12%.

On 13 October 2023, the revolving credit facility was increased to US\$8.6 million and the repayment term was extended to 19 March 2024. Interest and fees have been added to the loan and are due for repayment on the same terms as the facility.

On 30 April 2024, the repayment term of the revolving credit facility was further extended to 31 May 2024, on which date, it was further extended to 30 June 2024.

On 3 May 2024, the Group announced that it had retired US\$3.88 million of the facility through the issuance of US\$3.88 million of equity comprised of 64,045,768 new Ordinary Shares of 0.1 pence each in Zephyr Energy plc at a price of 4.85 pence per new Ordinary Share. See note 29.

In June 2024, the Group announced that it had fully repaid the remaining US\$6 million of the facility.

Promissory note

On 1 August 2023, the Group entered into an agreement for a principal sum of US\$160,000 repayable in six monthly instalments of US\$16,500 and a final payment of US\$75,000 due in February 2024. The note was related to oilfield equipment and the lender held collateral over that equipment until the principal was repaid.

The movement in total borrowings during the year was:

	2023 US\$'000	2022 US\$'000
At 1 January	25,393	4,060
Net cashflows - financing activities - net additions to borrowings	9,016	21,569
Non-cash movements - movement in capitalised interest and loan costs	942	(236)
At 31 December	35,351	25,393

21. Deferred tax

	2023 US\$'000	2022 US\$'000
At 1 January	1,955	-
(Credit)/charge	(1,560)	1,955
At 31 December	395	1,955

Represented by:

	2023 US\$'000	2022 US\$'000
U.S. tax losses	(12,586)	(9,511)
Oil and gas property	14,887	10,764
Decommissioning	(1,267)	(1,034)
Unrealised foreign gain	730	1,409
Mark to Market adjustments	70	327
Temporary timing differences	(1,439)	-
Net deferred tax liability	395	1,955

Unrelieved tax losses arising in the UK of US\$4.9 million (2022: US\$6.2 million) have not been recognised as a deferred tax asset as there is currently insufficient evidence that the asset will be recoverable in the foreseeable future. The losses can be carried forward indefinitely but must be utilised in relation to the same operations.

Notes to the financial statements

22. Provisions

	Group Decommissioning	
	2023 US\$'000	2022 US\$'000
At 1 January	4,138	508
Business combinations	-	2,319
Additions	268	2,146
Disposal	(80)	-
Change in estimates	372	(955)
Accretion interest	369	120
At 31 December	5,067	4,138
Non-current provision	5,067	4,138

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

During the year ended 31 December 2023, the Group recognised a provision for the decommissioning liability in respect of wells where a change of status indicated the requirement for decommissioning provisions and any changes in estimates in respect of all relevant assets at 31 December 2023. See note 4.

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

	31 December 2023 %	31 December 2022 %
Inflation factor	3.35	2.36
Risk free rate	4.20	4.14

The cost of decommissioning assets is included as part of the relevant asset as follows:

	2023 US\$'000	2022 US\$'000
Exploration and evaluation assets	2,167	1,990
Oil and gas properties	2,408	2,021
	4,575	4,011

Notes to the financial statements

23. Share capital

	Group and Company			
	2023		2022	
	Number '000	US\$'000	Number '000	US\$'000
Authorised				
Ordinary Shares of 0.1 pence each	7,779,297	9,911	7,779,297	9,411
Deferred Shares of 9.9 pence each	227,753	28,725	227,753	27,278
	8,007,050	38,636	8,007,050	36,689
Allotted, issued and fully paid				
Ordinary Shares of 0.1 pence each	1,686,502	2,263	1,560,746	2,107
Deferred Shares of 9.9 pence each	227,753	40,305	227,753	40,305
	1,914,255	42,568	1,788,499	42,412

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

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

Issued ordinary share capital

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

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

On 3 January 2023, the Company issued 22,272,726 Ordinary Shares of 0.1 pence each in respect of warrants which were exercised on 29 December 2022 at a price of 2 pence per Ordinary Share, raising gross proceeds of US\$0.5 million (£0.45 million) in the year ended 31 December 2022. See note 24.

On 10 February 2023, the Company issued 13,483,095 Ordinary Shares of 0.1 pence each at a price of 6.05 pence per Ordinary Share in respect of the acquisition by the Group of the remaining 25% working interest in the WSU in the Paradox Basin, Utah from RSOC. This has been treated as a share-based payment transaction. See notes 13 and 26.

On 12 June 2023, the Company issued 90,000,000 Ordinary Shares of 0.1 pence each at a price of 3.5 pence per Ordinary Share, raising gross proceeds of US\$3.9 million (£3.2 million).

	Ordinary Shares Number '000	Deferred Shares Number '000
At 1 January 2022	1,304,746	227,753
Allotment of shares	256,000	-
At 1 January 2023	1,560,746	227,753
Allotment of shares	125,756	-
At 31 December 2023	1,686,502	227,753

Notes to the financial statements

24. Warrant reserve

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

The fair value of the warrants granted to subscribers was US\$1.6 million and this was recognised as a movement between equity reserves.

On 29 December 2022, 22,272,726 warrants were exercised at a price of 2 pence per Ordinary Share, raising gross proceeds of US\$0.5 million (£0.45 million). See note 23.

The fair value of the warrants exercised was US\$0.12 million and this was recognised as a movement between equity reserves.

There have been no further grants or exercise of warrants during the year ended 31 December 2023.

	Warrants Number '000
At 1 January 2022	22,273
Granted	64,000
Exercised	(22,273)
At 1 January 2023 and 31 December 2023	64,000

25. Reserves

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

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

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

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

26. Share-based payments**Equity settled share option plan**

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

At 31 December 2023, 45 million share options had been granted under the terms of the Share Option Plans and not exercised.

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

Notes to the financial statements

26. Share-based payments continued

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

	2023		2022	
	Number of options '000	Weighted average exercise price pence	Number of options '000	Weighted average exercise price pence
Outstanding at 1 January	45,031	4.8	45,281	5.57
Expired	(267)	85.92	-	-
Lapsed	-	-	(250)	145.4
Outstanding at 31 December	44,764	4.3	45,031	4.8
Exercisable at 31 December	44,764	4.3	34,365	6.1

The options outstanding at 31 December 2023 had an estimated weighted average remaining contractual life of 6 years (2022: 7 years), with an exercise price ranging between 0.1 pence and 342.5 pence.

There were no options issued during the year ended 31 December 2023 (2022: nil).

Share-based payment transaction

On 10 February 2023, the Company issued 13,483,095 new Ordinary Shares of 0.1 pence each at a price of 6.05 pence per new Ordinary Share in respect of the acquisition by the Group of the remaining 25% working interest in the WSU in the Paradox Basin, Utah from RSOC. Under the structure of the acquisition agreement, the fair value of the shares issued could be measured directly, and accordingly an addition to exploration and evaluation assets of US\$1 million has been recognised during the year ended 31 December 2023. See notes 13 and 23.

Warrants

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

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

On 12 June 2023, the Company granted 10,388,571 warrants to TPI, in respect of broker services provided by them in relation to the placing of the Company's Ordinary Shares. The warrants permit the holder to subscribe for one new Ordinary Share of 0.1 pence at a price of 4.375 pence per Ordinary Share and are exercisable at any time for a period of three years from the date of issue.

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

	Grants in year 10,388,571 Warrants
Exercise price (pence)	4.375
Expected volatility (%)	79
Expected life (years)	2.5 years
Risk free rates (%)	4.72
Expected dividends	-
Performance condition	None

The fair value of the warrants granted during the year was US\$0.2 million (2022: US\$0.6 million). The share price of the Company's Ordinary Shares on the date of grant was 3.45 pence per Ordinary Share.

Notes to the financial statements

26. Share-based payments continued

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, the US\$0.2 million (2022: US\$0.4 million) fair value charge relating to the warrants issued in respect of services provided in relation to the placing of the Company's Ordinary Shares has been treated as a movement between equity reserves.

During the year ended 31 December 2022, 1,360,000 warrants expired. The fair value of the expired warrants was US\$11,513 and this was recognised as a movement between equity reserves. No warrants expired during the year ended 31 December 2023.

No warrants have been exercised during the year ended 31 December 2023 (2022: nil).

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 2022	33,710
Granted	25,567
Expired	(1,360)
At 1 January 2023	57,917
Granted	10,388
At 31 December 2023	68,305

In the year ended 31 December 2023, the Company recognised a total expense of US\$6,473 (2022: US\$0.2 million) in respect of share-based payments, being US\$6,473 (2022: US\$24,792) in respect of the share option plan and US\$ nil (2022: US\$0.2 million) in respect of warrants.

In April 2024, the Company issued a total of 61,503,028 share options to Directors, certain employees and consultants of Zephyr, either to reflect historic awards under the Company's Long-Term Incentive Plan, bonuses for performances achieved in 2021 and 2022, to satisfy employee contractual commitments or commitments in lieu of deferred remuneration and fees from 2020, during the COVID-19 pandemic.

27. Financial instruments**Financial risk management objectives**

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

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

The Group 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 is to minimise costs and liquidity risk.

The Group is not subject to externally imposed capital requirements.

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

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

Notes to the financial statements

27. Financial instruments continued

Material accounting policies

Details of the material 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	
	2023 US\$'000	2022 US\$'000	2023 US\$'000	2022 US\$'000
Financial assets measured at amortised cost				
Cash and cash equivalents	3,611	8,996	40	118
Trade receivables	4,577	3,919	-	-
Other receivables	3,119	330	-	-
Loans to subsidiary undertakings	-	-	52,923	43,850
	11,307	13,245	52,963	43,968

	Group		Company	
	2023 US\$'000	2022 US\$'000	2023 US\$'000	2022 US\$'000
Financial assets measured at fair value				
Derivative contracts – hierarchy, Level 1	278	1,307	-	-

	Group		Company	
	2023 US\$'000	2022 US\$'000	2023 US\$'000	2022 US\$'000
Financial liabilities measured at amortised cost				
Trade payables	5,115	8,881	85	121
Other payables	112	110	-	1
Accruals	1,730	3,508	339	316
Borrowings	35,526	25,709	-	-
Lease liabilities	70	-	70	-
	42,553	38,208	494	438

Fair value of financial instruments

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

Interest rate risk management

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

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

The Group's main interest rate risk arises from borrowings that incur interest charges at a fixed rate above established parameters. See note 20. However, the majority of the Group's borrowings incur a fixed interest rate charge, and those that do not, are repayable within the short term. As a result, the Directors do not consider that the Group has substantial exposure to fluctuating interest rates on its liabilities and accordingly, no sensitivity analysis has been presented.

Notes to the financial statements

27. Financial instruments continued

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 arises.

Other than small amounts of cash balances and other payables that are held in currencies other than the functional currency of the relevant entity, the majority of the Group's monetary assets and monetary liabilities are denominated in the functional currency of the relevant entity. As a result, there is limited exposure to fluctuations in exchange rates that would impact the income statement of the Group.

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

	Liabilities		Assets	
	2023 US\$'000	2022 US\$'000	2023 US\$'000	2022 US\$'000
GBP	118	90	30	71

The Group has intercompany loans which are eliminated on consolidation. However, the loans are GBP denominated loans which are recognised in U.S. subsidiaries as US\$. As a result, the Group is exposed to exchange rate fluctuations on restatement of the loans at the reporting date. As the loans have not been treated as net investment in foreign subsidiaries the impact of exchange rate fluctuation is recognised in the income statement.

The financial statements of certain of the Group's foreign subsidiaries are denominated in currencies that differ from the Group's presentation currency. As a result, the Group is exposed to movements in US\$ in respect of foreign exchange differences arising on the translation of recognised assets and liabilities, which may impact equity.

The Group does not normally hedge against the effects of movements in exchange rates.

Foreign currency sensitivity analysis

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

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

	2023 US\$'000	2022 US\$'000
Income statement	(3,105)	(2,616)

Liquidity risk management

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

With the exception of borrowings, see note 20, and lease liabilities, the Group's financial liabilities mature within less than six months. At 31 December 2023, the Group was compliant with all the terms of its borrowings.

The Group does not face a significant liquidity risk with regard to its lease liabilities, which are monitored by the Board.

Notes to the financial statements

27. Financial instruments continued

At 31 December 2023, the maturity of undiscounted borrowings including interest was as follows:

	Group		Company	
	2023 US\$'000	2022 US\$'000	2023 US\$'000	2022 US\$'000
Maturity analysis				
Less than 6 months	13,128	2,543	19	-
6 months to 1 year	18,123	14,037	20	-
1 year to 2 years	5,117	5,086	31	-
2 years to 5 years	1,699	6,782	-	-
	38,067	28,448	70	-

Credit risk management

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

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

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

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

Commodity price management

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

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

28. Related party transactions**Amounts due from subsidiaries****Group**

Other than foreign exchange losses and gains attributable to the restatement of GBP denominated intercompany loans in the Company's U.S. subsidiaries, balances and transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation and are not disclosed in this note. A foreign exchange loss of US\$2.7 million (2022: gain US\$5.6 million) has been recognised in the income statement for the year ending 31 December 2023.

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:

	2023		2022	
	Transactions in the year US\$'000	Amounts owing US\$'000	Transactions in the year US\$'000	Amounts owing US\$'000
Loans	2,824	64,973	11,042	58,952
Management charges	669	6,901	533	5,902
Interest (1% over UK base rate)	2,595	9,860	1,215	6,839
Capital contribution	-	603	-	573

Notes to the financial statements

28. 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*.

	2023		2022	
	Purchase of services US\$'000	Amounts owing US\$'000	Purchase of services US\$'000	Amounts owing US\$'000
Short-term employee benefits	1,462	-	1,363	-
Post-employment benefits	72	59	84	67
Share-based payments	6	-	19	-
	1,540	59	1,466	67

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

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

Directors' pensions

	2023 No	2022 No
The number of Directors to whom retirement benefits are accruing under money purchase schemes was	2	2

Services

During the year ended 31 December 2023, the Group received services from OCE which is a related party as JC Harrington is indirectly the controlling shareholder and RL Grant is also a shareholder.

	2023 US\$'000	2022 US\$'000
Office services	15	17

Directors warrants

On 3 January 2023, the Company issued 22,272,726 Ordinary Shares of 0.1 pence each in respect of warrants which were exercised on 29 December 2022 at a price of 2 pence per Ordinary Share, raising gross proceeds of US\$0.5 million (£0.45 million) in the year ended 31 December 2022. See note 24.

Notes to the financial statements

29. Post balance sheet events

Borrowings

SGRI

On 30 April 2024, the repayment term of the SGRI revolving credit facility was extended to 31 May 2024, on which date, it was further extended to 30 June 2024.

On 3 May 2024, the Group announced that it had retired US\$3.88 million of the facility through the issuance of US\$3.88 million of equity comprised of 64,045,768 new Ordinary Shares of 0.1 pence each in Zephyr Energy plc at a price of 4.85 pence per new Ordinary Share. See note 20.

In June 2024, the Group announced that it had fully repaid the remaining US\$6 million of the facility. See note 20.

FIBT

In June 2024, the Group completed its semi-annual redetermination of the existing revolving credit facility and entered into a new facility agreement with FIBT. Under the terms of the agreement, the Group received a new term loan of US\$5.6 million. The new term loan will amortise monthly over four years and has an interest rate of 10% per. See note 20.

Hedging programme

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

Share-based payments

In April 2024, the Company issued a total of 61,503,028 share options to Directors, certain employees and consultants of Zephyr, either to reflect historic awards under the Company's Long-Term Incentive Plan, bonuses for performances achieved in 2021 and 2022, to satisfy employee contractual commitments or commitments in lieu of deferred remuneration and fees from 2020, during the COVID-19 pandemic.

Other information

Directors, advisers and officers
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“Our goal for the next year is to move the Paradox project into commercial production”

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	Group Finance Director

Secretary

CJ Eadie

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JOINT BROKERS

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Panmure Gordon (UK) Limited
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Glossary

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





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