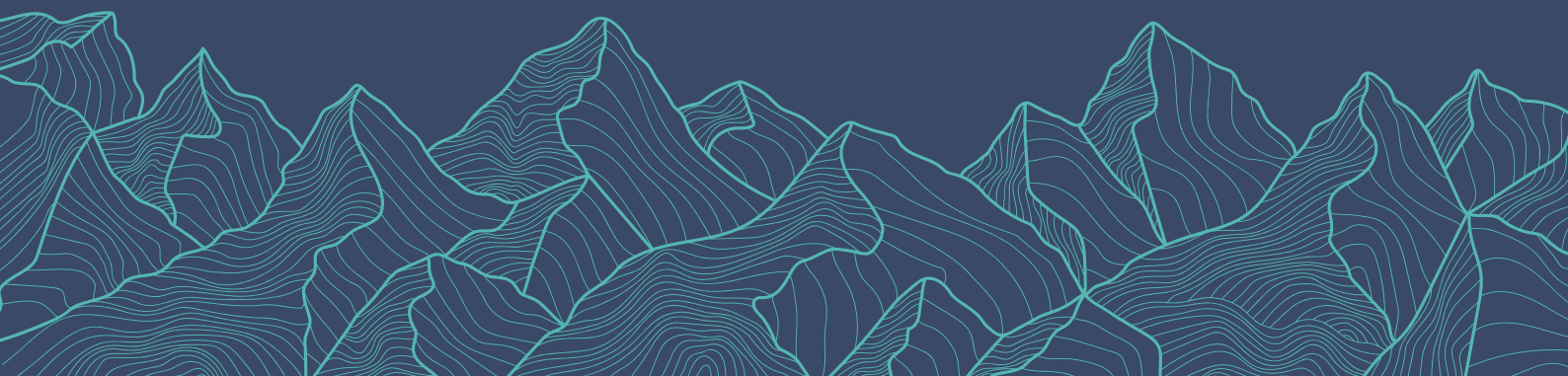




Zephyr Energy plc

Annual Report and Financial Statements
For the year ended 31 December

2021



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Chairman's Statement

Overview

The period under review was a time of substantial progress in the ongoing transformation of Zephyr. During this period the Group evolved from a single project exploration group into a self-sustaining, cash generating, oil producing group with a balanced portfolio of both operated and non-operated assets located in two established oil producing basins in the U.S.

I am incredibly proud of what was achieved during the period, and we remain fully committed to our primary goal of opening up the next prolific onshore U.S. oil and gas play through the systematic development of our flagship project in the Paradox Basin, Utah, U.S. (the "Paradox project").

The 2022 fiscal year promises to be an equally exciting time for our Shareholders as we aim to bring our State 16-2LN-CC well into commercial production and commence our proposed three well drill programme on the Paradox project. A successful drilling programme will see the Group further defining the Paradox project, will deliver significant cashflows, and will see the Group materially increasing its reserve base in the project. This activity will be fully funded by cashflows from our non-operated asset portfolio in the Williston Basin, North Dakota, U.S. (the "non-operated portfolio"), which was established during the period under review, and since, through a number of discrete acquisitions with the main purpose of funding our proposed activity on the Paradox project.

Our forthcoming activity across all our operations will be carried out consistent with our core values of being responsible stewards of investors' capital and responsible stewards of the environment.

Background

Our goals for 2021 were simple but ambitious. We were determined to transform the Group into a well-capitalised hydrocarbon producer, with healthy cashflows and significant growth potential. I am delighted to report that 2021 saw us deliver on all these key objectives.

Our results are even more remarkable when one considers that they were achieved in spite of the backdrop of the second year of the global pandemic. I was thoroughly impressed that our management team and contractors dealt with the extraordinary circumstances in such a positive and

effective way, and always with a view to ensuring the welfare of our people and the minimal disruption to our announced timeframes. That we achieved so much during a time of significant market instability, particularly for energy companies, is testament to their abilities and performance and I am extremely grateful for their efforts.

Operational activity

After many years of investment in the Paradox project, it was gratifying that the Group was able to make material progress towards unlocking the potential considerable value of the project during the period. In particular, we saw the first flowing hydrocarbons at the State 16-2LN-CC well from the Cane Creek reservoir target during our highly successful well test. This well test exceeded management's pre-drill estimates and achieved a proven rate-constrained production high of 1,083 barrels of oil equivalent per day ("boepd"), with internal modelling indicating potential flow rates of 2,100 boepd once it is no longer rate-constrained. The well test clearly demonstrated that 16-2LN-CC is both a sizeable and potentially profitable well, and it endorsed Zephyr's strategy of the proposed wider development of the Paradox project.

Zephyr's position within the Paradox Basin was also given a significant boost in 2021 when the United States Bureau of Land Management (the "BLM") approved the formation of a new 25,000-acre Federal Unit, known as the White Sands Federal Unit (the "WSU"), which incorporated all of the Group's leases covered by its historic 3D seismic survey. This provides us with increased security of tenure and an excellent long-term framework for the development of our lease acreage, including the lease on which the State 16-2LN-CC well is situated.

The ultimate scale and resource potential of the Paradox project was further demonstrated with the completion of an updated independent reserves and resource evaluation, conducted by Sproule International Limited ("Sproule"), the key findings of which were published in April 2022 (the "CPR"). Following the success of the State 16-2LN-CC well, the CPR saw the first proven reserves booked for the Paradox project, with a 2P figure of 2.1 million net barrels of oil equivalent ("boe"). In addition, the CPR saw the doubling of our 2C resource estimates across the Cane Creek reservoir with 27 million net boe, up from 12.3 million boe reported in the Group's previous CPR on the Paradox project that was carried out in 2018.

Chairman's Statement

(continued)

The plan for the Paradox project for the remainder of the current financial year is to recommence production from the State 16-2LN-CC well, with gas volumes produced being utilised by a co-located crypto-mining facility, and to commence our proposed three well drilling campaign to further delineate the scale and production potential of the project. At the time of writing, we expect to have the State 16-2LN-CC in production by the end of September, and we are making final preparations for our fully funded three well campaign which is due to commence in the coming weeks.

A key accomplished objective for 2021 was to grow production and positive cash flow for the Group via a combination of our existing portfolio and acquisitions. The rapid growth of our portfolio of non-operated production assets in the Williston Basin, through a number of discrete acquisitions, was a major development in helping us achieve this objective. Our ability to self-fund the upcoming Paradox drilling campaign is the result of successfully executing this strategy of building out our cash generative non-operated portfolio to ensure the organic development of the Paradox project.

Our non-operated portfolio, which currently consists of working-interests in 219 wells (the vast majority of which are currently in production), is expected to provide US\$35-40 million of revenue, net to Zephyr, in 2022. In Q1 2022, Zephyr's revenues from the non-operated portfolio were US\$11.5 million, resulting in operating cashflows to the Group of US\$9.8 million, demonstrating our ability to self-finance the operational activity across our portfolio.

Environmental, Social and Governance ("ESG")

In a year that saw COP26 hosted in Glasgow bringing The Paris Agreement on climate change into ever sharper focus, Zephyr demonstrated its commitment to play its part in this essential global effort. We will always aspire to have ESG credentials that are amongst best in class. This was no more evident than when we achieved, ahead of schedule, our stated target of "net-zero" operational carbon impact. This was done

primarily through our programme of purchasing Verified Emission Reduction credits ("VERs"), designed to mitigate all Scope 1 carbon emissions and was an initiative that was unanimously supported by the Company's Board of Directors ("Board").

Followers of Zephyr will be familiar with our commitment to stewardship of both the natural environment and Shareholder capital at the core of all our activity. Prudent and careful cash management and ESG focus were clearly in evidence during the period under review and remain the central tenet of our philosophy. The Board firmly believes this is not only the right way to run the Group but the approach that will ensure our ongoing success on behalf of all stakeholders. Good environmental and operational performance, supported by the appropriate levels of governance is the optimal way to drive superior investor returns. The progress made in 2021 was a clear sign of our firm intent to operate within these key principals and we intend to ensure that they remain embedded at the heart of the Group.

Conclusion

On behalf of the Board, I would like to thank everyone within Zephyr for their unswerving hard work and commitment during this transformational period. I would also like to extend my heartfelt gratitude to our Shareholders and advisers for their continued support. Due to the achievements of 2021, we can look to the future with a high degree of confidence and excitement as we continue in our pursuit of building a Group of which all our stakeholders can be proud.

RL Grant

22 June 2022

Strategic Report

The Directors present their Strategic Report on the Group for the year ended 31 December 2021.

Principal Objectives and Strategies

Zephyr Energy plc is an Oil & Gas (“O&G”) exploration and production group operating in the Rocky Mountain region of the U.S.

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

To achieve this mission, the Group has prioritised:

- constructing a team with significant experience in the U.S./Rocky Mountain O&G sector, with a particular focus on operations, development, governance, finance, merger and acquisition and turnaround experience;
- a sharpening of focus – we are wholly focused on responsible Exploration and Production (“E&P”) investment in the Rocky Mountain region and have exited all other legacy sectors and geographies;
- the development of a non-operated asset portfolio that provides cashflow to be reinvested in the Paradox project;
- the redoubling of ESG efforts, including corporate governance compliance, ensuring carbon-neutrality across our operations, and proactive engagement with the communities in which we operate;
- the leveraging of partnerships (such as the U.S. Department of Energy, experienced operators in the Basins in which we operate, and private equity investors);
- the design and build of a technology-led acquisition process which can rapidly assess opportunities of further interests through acquisition, farm-in agreements or joint venture arrangements; and
- tight financial control and cash conservation.

Review of Operations and Future Developments

Background

As outlined in the Chairman’s Statement, the period under review has been one of extraordinary progress and transformation for Zephyr.

During this period the Group has achieved multiple operational milestones, most notably with the first flowing hydrocarbons from our flagship Paradox project and with the construction of our cash generating non-operated portfolio.

The Group’s operated asset is in the Paradox Basin where it holds a 37,613-acre leasehold and, following the initial drilling success during the year, the Group is expecting its first commercial production from its State 16-2LN-CC well by the end of the third quarter of this year, with gas volumes produced being utilised by a co-located crypto-mining facility which is currently under development. The Group is also well underway with the planning of a three-well drill programme which will commence in the coming weeks to further delineate the scale and production potential of the project.

The Group’s non-operated production comes from working-interests in wells across the Bakken and Three Forks formations in the Williston Basin, North Dakota. Zephyr currently has working-interests in 219 wells and Q1 2022 sales from the non-operated portfolio was circa 1,600 boepd (net to Zephyr) resulting in corresponding revenues for Zephyr from the portfolio of circa US\$11.5 million for the quarter.

The Board’s strategy is to recycle the considerable cashflows expected to be generated from the non-operated Williston Basin portfolio into the proposed Paradox development programme, and this organic growth strategy is expected to enable the Group to fully fund the three-well drilling programme on the Paradox project planned for later this year.

In the Board’s opinion the Group’s asset portfolio is ideally positioned, with the cash generating, non-operating portfolio providing Shareholders with an engine that can drive the development of the Paradox project and help unlock its potential considerable upside. Set out below is a detailed summary of the progress made across both our operated and non-operated portfolios during the period under review.

Strategic Report

(continued)

Paradox project – operated asset

Background

Having completed the comprehensive restructuring of the Paradox project in 2020, which primarily involved overhauling the existing joint venture partnership and securing additional tenure for the most attractive project acreage, the key task for the 2021 financial year was to commence operations on the ground and to finally begin the process of delivering value from the project after many years of significant investment.

The securing of a US\$2 million U.S. Government grant in late 2020 enabled us to proceed with the drilling of the State 16-2 well and this was the catalyst for the considerable progress on the project in the period under review.

The State 16-2 well was completed in January 2021 having been successfully drilled to a measured depth of 9,745 feet total depth (“TD”). Drilling operations were safe and effective, conducted in accordance with Covid-19 related guidance and restrictions, and were completed well within the Group’s forecast timeframe.

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

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

- approximately 113 feet of continuous whole core across the historically productive Cane Creek reservoir interval – the first whole Cane Creek core ever to be retrieved in the northern part of the Paradox Basin;

Paradox Basin

Recent Progress



2022 Milestones to Date

- CPR completed – with first booked reserves, significant increase to contingent resources and maiden prospective resources released
- Upcoming 3 well drilling programme – locations and well designs completed
- Drilling permits submitted and on-site surveys completed
- First liquid sales from Paradox Basin production test volumes

Strategic Report

(continued)

- rotary side wall cores in eleven shallower exploration targets; and
- gamma ray, neutron density, resistivity, formation litho scanner and sonic wireline log data across the bulk of the Paradox Formation, which secured significant additional petrophysical data.

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

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

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

On 15 March 2021, Zephyr announced a detailed update on the Paradox project, which included confirmation of evidence of hydrocarbon saturation across the entirety of the continuous core acquired from the Cane Creek reservoir. When integrated with the recently acquired log data, existing 3D seismic data, and geologic and regional analogue analysis, the resulting analysis gave the Board strong justification for advancement to the next phase of the project. The Board therefore elected to proceed with detailed planning for the near-term drilling of the lateral well, and following the successful completion of a US\$13.9 million fundraise in April 2021, the Group was fully funded to commence the drilling of the lateral portion of the well.

Drilling of the State 16-2LN-CC lateral well

Drilling operations commenced in July 2021, ahead of Zephyr's forecast timeline and, in August 2021 the Group announced that the well was successfully drilled to a TD of 14,370 feet at which point a full suite of wireline logs was run and production casing was set.

Drilling operations achieved their main objective of hitting the Cane Creek reservoir target and staying within that reservoir across the entire lateral portion of the well. In addition, there was evidence of hydrocarbon charge across the entirety of the Cane Creek lateral, as well as in multiple overlying reservoirs.

With the setting of production casing, we were confident of having secured an excellent well bore platform from which to complete the well and test production from the Cane Creek reservoir.

Results from the State 16-2LN-CC data evaluation and diagnostic fracture injection test ("DFIT")

Following the completion of the lateral well, the Group reported its results from the interpretation of the data acquired during drilling operations and the Board was particularly pleased that wireline data suggested that 85 per cent of the lateral had the potential to be completed for well testing and production, with additional positive data suggesting porosity and permeability estimates equivalent to other producing basins with prolific hydraulic stimulated resource potential ("HSRP") development, as well as mud gas mass spectrometry evidence suggesting the presence of oil, gas and condensate with corresponding apparent low water saturations.

Based on the positive data received, the Board therefore elected to initiate a DFIT to provide additional insight into the potential for successful hydraulic stimulation on our acreage position. As the State 16-2LN-CC is the first horizontal well in this part of the Paradox Basin, the ability to develop a strong understanding of reservoir mechanical properties was crucially important to help assess the series of options for wider potential development.

In early September 2021, the Group announced the results from the DFIT, during which a 3 feet interval at the toe of the lateral was perforated and hydraulically stimulated.

The results from the DFIT were highly encouraging and suggested high formation pressure (a strong positive indicator of reservoir drive), permeability consistent with other prolific resource plays, and demonstrable evidence of hydrocarbons flowing into the well after stimulation. In addition, the DFIT provided rock mechanical data (including lithostatic gradient, effective stress and fracture propagation data) which was subsequently interpreted and provided valuable insight to assist with completion design.

In all, the results of the DFIT, combined with the significant amount of data previously gathered from the well, indicate that the State 16-2LN-CC had the potential to be an excellent "proof of concept" location for an HSRP test.

On that basis, the Board unanimously approved proceeding with a HSRP completion at the State 16-2LN-CC.

Strategic Report

(continued)

First hydrocarbons produced from Paradox project

The HSRP completion commenced on 18 October 2021 and the Group subsequently announced that the operation was successfully completed. The well was stimulated in fourteen separate stages across 4,020 feet of horizontal lateral wellbore. The stimulation utilised a total of 40,000 barrels of water, 2.4 million pounds of sand and a cross linked gel fluid, all in line with pre-completion forecasts.

On 11 November 2021, the Board was delighted to announce the first flowing hydrocarbons from the State 16-2 LN-CC well which represented a significant historical and operational milestone for the Group, particularly as this was the first horizontal well in the wider Paradox Basin to flow hydrocarbons using a modern hydraulically stimulated completion.

The Group carried out 23 days of safe and successful production testing on the well and it demonstrated the potential to drain a larger hydrocarbon resource and with stronger economics than initially forecast by the Group.

Key conclusions from State 16-2 LN CC completion

- During the test, the well averaged rate-constrained daily rates of 716 boepd, with rate-constrained highs of 1,083 boepd achieved with limited pressure drawdown which was incredibly encouraging.
- Initial simulation modelling suggests possible plateau rates of 2,100 boepd are possible when the well is fully equipped and no longer rate-constrained. The test was rate-constrained to minimise flow assurance issues from salt deposition in the well bore. Future flow assurance issues are expected to be mitigated when the well's final completion equipment is installed.
- Gas rates are substantially higher than expected, with modelling suggesting the well is capable of production plateau rates of 10 million square cubic feet of gas per day and 500 boepd of liquids.
- Initial data from the production test suggests the State 16-2LN-CC has a single well potential Estimated Ultimate Recovery ("EUR") of 2.65 million barrels of oil equivalent ("mmboe"), significantly higher than the Group's pre-drill estimates of up to 0.85 mmboe.

- Not only does this successful production test indicate the potential for a highly profitable single well, but the Board also believes the test will lead to a substantial reduction in development risk across our acreage while allowing for a future systematic development of the project – one with relatively predictable well distribution within both the Cane Creek reservoir as well as across the multiple overlying reservoirs.

Following the completion of the production testing, Zephyr commissioned the independent reserve consulting firm Sproule to complete a Competent Persons Report ("CPR") to assess the Group's reserves across both the Cane Creek reservoir and the eight overlying reservoirs.

Competent Persons Report

The previous CPR on the Paradox project was completed in 2018 by Gaffney Cline & Associates ("2018 CPR"). In April 2022, the Group announced the results from Sproule's CPR.

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

The Board was delighted with the conclusions drawn by Sproule, which both demonstrate the impact of our recent drilling success and which further highlight the substantial potential scale and profitability of the Paradox project.

The key findings were as follows:

- 2P Reserves: First Paradox Basin Proved Reserves of 2.1 million boe, based on the State 16-2 LN-CC
- 2C Resources: 27 million boe – more than double the 2C Resources in the 2018 CPR
- Prospective resources from overlying reservoirs: 203 million net unrisked boe (68 million boe risked with a weighted-average 33% chance of success ("CoS"))

Strategic Report

(continued)

Updated CPR: Significant Increase from 2018 CPR

Net Attributable to Zephyr			
Paradox Basin	1P	2P	3P
2018: Developed & Undeveloped Reserves (MBOE)	–	–	–
2022: Developed & Undeveloped Reserves (MBOE)	537	2,123	6,811

Net Attributable to Zephyr			
Paradox Basin	1C	2C	3C
2018: Contingent Resources (MBOE)	361	12,330	29,540
2022: Contingent Resources (MBOE)	–	26,870	81,130

Net Attributable to Zephyr			
Paradox Basin	1U	2U	3U
2018: Unrisked Prospective Resources (MBOE)	–	–	–
2022: Unrisked Prospective Resources (MBOE)	57,500	203,000	419,000

Combined with Zephyr's Williston Basin non-operated portfolio, Zephyr's total 2P Proved Reserves now have an estimated net present value at a ten per cent discount rate ("NPV-10") of over US\$111 million (up from zero value ascribed in 2018) with substantial multiples of additional upside potential from success cases related to its contingent and prospective resources.

In determining the NPV-10 for the reserves and resources, Sproule utilised its March 31, 2022 price forecast for both oil and gas which includes a West Texas Intermediate ("WTI") oil price forecast of US\$93/barrel ("bbl") in 2022, US\$83/bbl in 2023, and US\$73/bbl in 2024, with a further US\$5.00 per barrel deduction for price differential. For the gas price forecast, Sproule used a Henry Hub gas price of US\$5.00/per million British thermal units ("mmbtu") in 2022, US\$4.25/mmbtu in 2023, and US\$3.25/mmbtu, with a further gas price differential of US\$1.25 per million standard cubic feet ("mscf") reduction from Henry Hub, a heating value of 1000 btu per mscf and a shrinkage of 5% for losses due to surface facilities. Prices and costs are escalated at 2.0% per annum until the price doubles, and are then held flat.

The CPR marked a key milestone for the Group, further outlining the potential value in the Paradox project and due to the success of the State 16-2 LN-CC well, and our acquisition of proved reserves around the Cane Creek field, the Group was able to book Proved Reserves on the Paradox project for the first time.

Due to the early-stage nature of the Paradox Basin resource play, the range of outcomes for Zephyr's Utah assets remains large. Both Zephyr and Sproule identified uncertainties due to limited data across the areas planned for development by the Group. These include fluid composition and compressibility, water production, continuity of geomechanical properties across the reservoir and their impact on hydraulic fracture characteristics, and stimulated area around a well (well drainage area). The Group plans to utilise its upcoming three well drilling campaign to further quantify both the risks and upside presented by these uncertainties.

Strategic Report

(continued)

Formation of the WSU Federal Unit

Following the successful State 16-2 LN-CC drilling programme, the Group was also thrilled to report that the BLM had approved the formation of a new 25,000-acre Federal Unit to be operated by Zephyr. The new unit, the WSU, incorporates the Group's existing leases covered by its historic 3D seismic survey, including the lease on which the State 16-2LN-CC well is situated.

The WSU approval, effective October 2021, was another key milestone in the Group's ongoing development of the Paradox project. By consolidating over twenty separate leases into one overarching land agreement, Zephyr can focus on an optimal long-term development plan for the project as a whole, rather than maintaining its lease position in an ad-hoc fashion.

If the State 16-2 LN CC well is determined to be capable of delivering paying quantities of hydrocarbons, or if a second well is drilled on the WSU acreage within the next twelve months, the WSU will be extended beyond the initial 36-month extension currently approved by the BLM.

Next steps

Following the successful completion of State 16-2LN-CC well test and after taking into account the conclusions of the CPR, the Group intends to commence a high impact three-well drilling programme later this year to further delineate the scale of the project. This will include:

- one delineation/development well targeting the Cane Creek reservoir in Zephyr's 25,000-acre WSU (the "State 36-2 LNW-CC" well);
- one exploration well targeting Clastic 9 to see the zones potential to host a resource play (the "State 36-3 LN-C9 well"); and
- one delineation/development well in the historically prolific Cane Creek Field (new acreage south of the WSU)

Drilling permits for the drilling programme have been submitted, all necessary on-site surveys have been completed and negotiations continue with rig vendors.

Zephyr has also commenced work to equip the State 16-2LN-CC well for commercial production, and on 7 June 2022, the Group announced its plans to

recommence production by the end of September 2022. Liquid volumes produced from the well will be trucked and sold to refineries in Utah, and produced gas volumes will be sold to fuel onsite power generators which in turn will provide electricity for the co-located crypto-mining facility.

The Group plans to fund the initial investment required to launch the initial 1 megawatt ("MW") crypto-mining facility (capital expenditure forecast to be less than US\$2 million) from existing cash resources or via third party investment, with facility capital payback expected in under two years at current crypto-currency prices. CryptoKnight Energy, an experienced operator of oil industry co-located crypto mining operations, will serve as the general contractor for the construction and operation of the mining facility.

Following the testing of the 1MW facility, Zephyr may elect to build up to 4MW of power generation and crypto-mine facilities on the pad. Zephyr is evaluating a range of third-party investment options in the event it elects to expand the crypto-mining infrastructure.

Over the longer-term, the Group expects to tie its gas production from the Paradox project into the nearby gas export infrastructure recently purchased by Dominion Energy Inc. ("Dominion") a Fortune 500 Company which currently services over seven million customers in the U.S. Dominion has made public its plans to refurbish and expand the natural gas infrastructure running across Zephyr's acreage, and is expected to be available to accept gas volumes from Zephyr's wells in 2023.

Williston Project – Non-operated asset

In January 2021, Zephyr stated that one of its key goals for the year was to establish production and positive cashflow either through its existing portfolio (the Paradox project), via acquisition, or through a combination of both. In the period under review, and since, the Group has delivered on this goal and the Board is incredibly proud that, following a series of acquisitions, the Group now has a non-operated portfolio that delivered sales of over 1,600 boepd, net to Zephyr, in Q1 2022, with corresponding revenues of US\$11.5 million for the quarter.

Strategic Report

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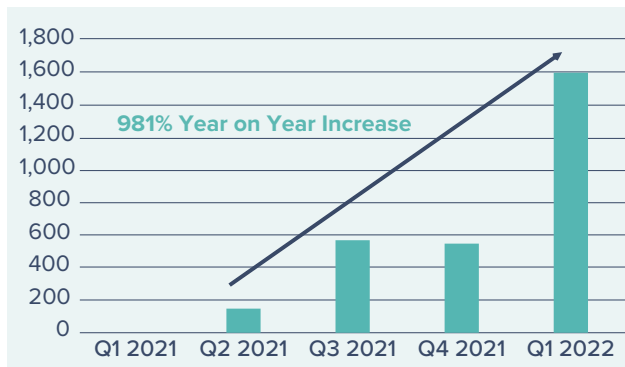
The establishment of our non-operated portfolio began in March 2021, during a period of lower commodity prices, and with the integration of our recent US\$36 million acquisition (completed in February 2022), our non-operated portfolio is expected to have a turnover of US\$35-40 million in 2022, providing the Group with free cash flow to support of Paradox project development plans.

In order to lock in cashflow to develop our Paradox asset and meet our funding commitments, in April 2022, the Group hedged just under half of its forecast 2022 production at more than US\$98 per barrel of oil.

Zephyr currently has working-interests in 219 wells, the vast majority of which are currently in production with multiple additional wells expected to be put in production over the next six months. The working-interests are in prime locations, and the majority of the wells are operated by Whiting Petroleum Corporation ("Whiting"), a leading Williston Basin producer.

Williston production

Non-Operated portfolio quarterly production (BOE/day)



Acquisitions

The non-operated portfolio has been carefully crafted and has been achieved through five discrete acquisitions, culminating in the completion of a transformative US\$36 million acquisition (the "acquisition") in February 2022. This acquisition nearly tripled the Group's existing non-operated production from its four previous acquisitions.

The US\$36 million acquisition was a game-changer for the Group, providing a stable foundation of low-decline production and cash flows from 163 gross producing wells. In addition, 18 drilled but

uncompleted wells ("DUCs") are expected to be brought online in the near term and 47 additional gross undeveloped locations are expected to provide meaningful upside for many years to come. The acreage is also highly complementary to the Group's other interests in the Williston Basin.

The key benefits of the Acquisition are as follows:

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

In order to fund the Acquisition, in January 2022, the Group undertook an equity fundraise of £12.8 million and secured a US\$28 million senior debt facility from a long-established North Dakota-based commercial bank.

The Group's non-operated portfolio continues to perform well ahead of the Board's forecasts and expectations, in part due to the current high commodity price environment.

Production update

Q1 2022 sales from the Group's non-operated portfolio averaged circa 1,600 boepd net to Zephyr, up from 548 boepd in Q4 2021.

During Q1 2022, Zephyr sold 144,540 boe and net sales to Zephyr were as follows:

Oil:	109,940 barrels ("bbls") at an average sales price of US\$90.11/bbl
Natural Gas:	114,096 million cubic feet ("mmcf") at an average sales price of US\$5.40/mcf
Natural Gas Liquids:	15,584 bbls at an average sales price of US\$64.19 per bbl

Q1 2022 revenues totalled US\$11.5 million net to Zephyr, and Q1 2022 average operating expenditure was US\$11.87 boe demonstrating the high profit margin realised from the hydrocarbons sold during the period.

Strategic Report

(continued)

16 new producing wells from Zephyr's existing portfolio are expected to be brought online over the next six months.

Hedging

In April 2022, the Group hedged just under half of its forecast non-operated production over the next two years. Using an average hedged production price of US\$98 for the remainder of the year and US\$90 flat for the remainder of its anticipated production, the Group forecasts a range of US\$35-40 million in revenue from production for FY 2022 from its non-operated portfolio based on forecast production range of 500,000 – 550,000 boe during the year.

Environmental, Social and Governance (“ESG”)

The Board is unanimously committed to ensuring that every action and investment decision the Group's makes is in line with our core values of being responsible stewards of investors' capital and responsible stewards on the environment. This includes the following points of focus:

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

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

A major milestone was achieved when the Zephyr announced carbon-neutrality across its operational footprint prior to its published goal of 30 September 2021. As an integral part of this undertaking, Zephyr is collaborating with the Prax Group (“Prax”), a British multinational independent oil refining, trading, storage, distribution and retail conglomerate dealing in crude oil, petroleum products and bio-fuels, headquartered in London, United Kingdom. Prax, which has trading offices in London, Singapore and the U.S., worked with Zephyr to measure, reduce and mitigate greenhouse gas (“GHG”) emissions across Zephyr's businesses, with mitigation efforts primarily focused on the purchase of VERs from reputable pre-vetted developers of sustainable projects. This exercise includes Zephyr's current corporate activity, its non-operated production assets in the Williston Basin, North Dakota, U.S., and Paradox project activity.

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

Partnership with Purified Resources (“Purified”)

In September 2021, the Group announced the formation of a partnership with Purified for the identification and execution of additional non-operated acquisitions. Purified's principals have substantial experience in the Williston Basin, a basin in which they previously helped assemble and close over US\$70 million of non-operated asset acquisitions and associated CAPEX for a private equity-backed vehicle.

Purified has assisted and/or co-invested with Zephyr in all its Williston acquisitions that it has closed in the period under review, and their team will have the right to continue to co-invest in future transactions. The newly formed partnership provides Zephyr with significant land and business development expertise directly in Zephyr's geographic region of focus.

Strategic Report

(continued)

Commencement of trading on OTCQB Venture Market

In July 2021, the Group's announced that its Ordinary Shares had been approved to trade on the OTCQB Venture Market ("OTCQB") in the U.S.

The Board believes that cross-trading on the OTCQB will increase liquidity and significantly enhance the ability of U.S. based investors to access and trade Zephyr shares during a period in which the Company is actively expanding its U.S. asset base.

Financial Review

Income statement

The Group reports a net profit after tax of US\$0.8 million or a profit of 0.08 cents per Ordinary Share for the year ended 31 December 2021 (2020: net loss after tax of US\$2.3 million or 0.66 cents per Ordinary Share). The Group generated revenue of US\$6 million from its non-operated asset portfolio (2020: nil), and made a gross profit of US\$3.3 million (2020: nil).

Administrative expenses for the year were US\$2.7 million (2020: \$1.6 million) highlighting the ramp up of the Group's operations following the pandemic, and the expansion of operations to provide the capacity and capability to develop both he operated and non-operated asset portfolios.

Balance sheet

Total investment in the Group's exploration and evaluation assets as at 31 December 2021 was US\$22.8 million (2020: US\$13.9 million) reflecting continuing investment in the Paradox project.

Total investment in property, plant and equipment as at 31 December 2021 was US\$11.2 million (2020: US\$0.03 million) reflecting the acquisition of the Group's non-operated assets in the Williston Basin.

Cash and cash equivalents as at 31 December 2021 were US\$1.8 million (2020: US\$3.9 million). During the year, the Company raised gross proceeds of US\$13.9 million (2020: US\$2.9 million) through the placing of new Ordinary Shares in the Company. In November 2021 the Group secured debt funding of US\$4.1 million (2020: nil) to enable it to pay a US\$3 million deposit in respect of a proposed acquisition which subsequently completed in February 2022.

In February 2022, the Company announced that it had raised a further US\$17.4 million (before expenses) through the placing of new Ordinary Shares in the Company, along with raising US\$28 million through a senior debt facility. The proceeds from these debt and equity instruments was used to complete the Group's US\$36 million acquisition of non-operated assets in the Williston Basin and to fund further activity on the Paradox project.

At 31 May 2022, the Group had cash and cash equivalents of US\$11.9m (this includes cash receipts from the non-operated portfolio for the month of May 2022 which were received in early June 2022).

Key Performance Indicators

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

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

Principal Risks and Uncertainties and Risk Management

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.

Strategic Report

(continued)

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.
- 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 proposed 2022 drilling campaign 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 the wells are meticulously planned and the technical team has undertaken a thorough review of geological and technical risks.
- There is execution and geological risk on the Paradox wells. The wells are deep, drilled in over pressure reservoirs, and have to be hydraulically stimulated to deliver commercial production. The Group's technical team has considerable experience of working on this project and has achieved good results to date in identifying and mitigating geological and execution risks. In addition, the service industry is very well developed in the U.S. and the Group will only engage with experienced contractors and service providers with detailed knowledge of relevant hydraulic stimulation techniques.

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.
- 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 has 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.
- Funds are maintained by the Group in Great Britain Pounds sterling ("GBP") and US\$. There is a risk that purchasing power in the U.S. is lost through foreign exchange translation. The Group considers its foreign exchange risk to be a normal and acceptable business exposure and does not hedge against the risk at present.
- There is a risk that there will be insufficient access to funding to meet all corporate, development and production obligations and activities. The Group manages liquidity risk by maintaining adequate cash reserves and monitoring forecast and actual cash flows. The Board reviews the Group's cash flow projections and forecasts on a monthly basis.
- The Group has financial and operational obligations in order to keep licences, leases and permits related to its projects in good standing. If the Group does not have sufficient funds to develop its portfolio of projects and to keep the projects in good standing there is a risk that underlying leases, licences and permits may expire potentially leading to a loss of the underlying assets and a subsequent impairment of the assets in the Group's financial statements. The cashflows generated by the Group's non-operated asset portfolio are sufficient to enable the Group to keep its leases in good standing.

Strategic Report

(continued)

Corporate and Social Responsibility

Health and Safety

It is the objective of the Group to ensure the health and safety of its employees and of any other persons who could be affected by its operations. It is the Group's policy to provide working environments which are safe and without risk to health and provide information, instruction, training and supervision to ensure the health and safety of its employees.

The Board is taking all necessary steps to protect its people against the ongoing coronavirus pandemic.

Significant Relationships

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

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

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

The Board considers its stakeholders to be the individuals and organisations that are affected by the Group's operations and with whom the Company seeks to proactively engage on a regular basis. The Company strives to maintain productive, mutually beneficial relationships with each stakeholder group by treating all stakeholders with fairness and respect and by providing timely and effective responses and information. Engaging our stakeholders informs our decision-making, including consideration of our long-term strategic objectives and the activities that support these aims, such as merger and acquisition diligence and the management of risk. Further details on our stakeholder engagement is set out below.

Stakeholder Engagement

Shareholders

The Board seeks to understand and meet Shareholder needs and expectations. It has established a strategy and business model which it believes will promote long term value to Shareholders. The Company's details are displayed on its website allowing

Shareholders to contact the Company if they so wish. The Board attaches great importance to providing Shareholders with clear and transparent information on the Group's activities and strategy. Details of all Shareholder 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. Key metrics for our Shareholders includes the Company's share price and earnings per share. Through our regulatory updates and the publication of our half and full year financial reports, we inform Shareholders regarding the status of their Company. Further Shareholder engagement includes the Annual General Meeting ("AGM") (although attendance may be affected due to restrictions imposed as a result of the pandemic) and discussions with investors when questions are asked.

Employees

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

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

Governments and regulators

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

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

Joint operating partners

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

Strategic Report

(continued)

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

Environment

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

More information on how the Company considers and discharges its obligations in respect of S172 Companies Act 2006 in respect of its stakeholders can be found in the Corporate Governance section of this document (page 18) and in respect of the environment at the relevant section above

Significant decisions made

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

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

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

On behalf of the Board

JC Harrington
Chief Executive Officer

22 June 2022

Directors' Report

The Directors present the Annual Report and financial statements of the Group for the year ended 31 December 2021.

Review of Future Developments

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

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2021 (2020: US\$nil).

Directors

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

JC Harrington
RL Grant
TH Reynolds
GB Stein
CJ Eadie

Directors' Remuneration

Remuneration paid to Directors during the year was as follows:

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

⁽¹⁾ Salaries include benefits-in-kind

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

⁽¹⁾ Salaries include benefits-in-kind

Directors' Report

(continued)

On 29 May 2020, the Company issued nil-cost options to its Non-Executive Directors to compensate them for salaries deferred in the year ended 31 December 2019. The Company issued 2,717,000 options which are exercisable at the Ordinary Share's nominal value of 0.1 pence and were calculated based on the emoluments deferred, divided by 1.1 pence, being the price at which Ordinary Shares were issued in the Company's placing in November 2019. The options can be exercised for a period of seven years from the date of issue. If a Non-Executive Director leaves the Company, the options can be exercised within three years of the date of leaving unless otherwise agreed with the Company. No options had been exercised at 31 December 2021. See note 26.

The options were issued as follows:

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

As outlined in the Company's 2020 Annual Report and in the Interim results for the period to 30 June 2021, it is the Company's intention to issue nil-cost options to certain Directors and employees to compensate them for salaries sacrificed during the Covid-19 pandemic. The options will be issued when the Board is permitted to do so and in line with its regulatory responsibilities. It has not been possible to issue these nil-cost options to date due to the Company's activity which has precluded transactions involving the Company's securities..

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

Directors' interests in Shares and Share Options

The Directors who held office at 31 December 2021 had the following interests, including family interests, in the Ordinary Shares of the Company as follows:

	Number of Ordinary Shares	
	31 December 2021	1 January 2021
CJ Eadie	6,775,095	5,275,095
JC Harrington	138,590,300 ⁽¹⁾	134,636,364 ⁽¹⁾
TH Reynolds	1,000,000	1,000,000
GB Stein	2,350,000	1,850,000
RL Grant	1,500,000	—

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

Directors' Report

(continued)

Directors' interests in share options of the Company, including family interests, as at 31 December 2021 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 28/05/27
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 28/05/27
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 28/05/27

Third party Indemnity Provision for Directors

The Company currently has in place, and had for the year ended 31 December 2021, Directors and Officers liability insurance for the benefit of all Directors of the Company.

Corporate Governance

Corporate governance matters are set out on pages 18 to 24.

Substantial Shareholdings

Other than the Directors' interests shown above, the Company has been notified of the following substantial interests as at 21 June 2022:

	Number of shares	Percentage of issued share capital
Origin Creek Energy LLC	137,136,364	8.8%
Tyndall Investment Management	148,418,576	9.5%

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

During the year BDO LLP was appointed as the Group's external auditor in succession to RSM UK Audit LLP.

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

On behalf of the Board

CJ Eadie

Finance Director

22 June 2022

Corporate Governance Statement

Zephyr is committed to achieving the highest standards of corporate governance and follows the requirements of the QCA Corporate Governance Code (the “Code”) published by the Quoted Companies Alliance in April 2018, a full version of which is available at <http://www.theqca.com>.

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

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

The Board continually assesses its corporate governance processes to ensure that Zephyr continues to comply with best practice as outlined in the Code.

As Chairman of the Company, I have overall responsibility for corporate governance and promoting high standards throughout the Group. No key corporate governance matters have occurred during the year.

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

RL Grant

Non-Executive Chairman

The Board and its Committees

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

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

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

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

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

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

Corporate Governance Statement

(continued)

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

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

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

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

Communication with Shareholders

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

Internal Controls

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

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

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

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

Corporate Governance Statement

(continued)

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

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

(continued)

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Maintain the Board as a well-functioning, balanced team led by the Chair	Fully Compliant	<p>The Board comprises the Non-Executive Chairman, two Executive Directors and two Non-Executive Directors (both of which are considered by the Company to be independent). One of the Non-Executive Directors, GB Stein acts as the Group's Senior Independent Director.</p> <p>The Board is constantly reviewing its make up to ensure that it has a sufficient blend between independence on the one hand, and knowledge of the Group on the other, to enable it to discharge its duties and responsibilities effectively.</p> <p>All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational. The Chairman holds regular update meetings with each Director to ensure they are performing as they are required. Board meetings take place, on average, every 4 to 6 weeks, normally held by telephone conference owing to the diverse geographic locations of the Board members.</p>	See Corporate Governance section of Annual Report for full details on the Board structure
Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Fully Compliant	<p>The Board is satisfied that, between the Directors, it has an effective and appropriate balance of skills and experience, including in the areas of exploration, development and production of oil and gas assets. All Directors receive regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. All Directors retire by rotation at regular intervals in accordance with the Group's Articles of Association.</p> <p>The Board makes decisions regarding the appointment and removal of Directors, and there is a formal, rigorous procedure for appointments. The Group's Articles of Association require that one-third of the Directors must stand for re-election by Shareholders annually in rotation; that all Directors must stand for re-election at least once every three years; and that any new Directors appointed during the year must stand for election at the AGM immediately following their appointment.</p> <p>All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Group's expense. In addition, the Directors have direct access to the advice and services of the Company Secretary and Finance Director.</p>	See Corporate Governance section of Annual Report for full details on the Board structure

Corporate Governance Statement

(continued)

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Fully Compliant	<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>Over the next few months, as a result of the Group's ongoing restructuring and expansion, we intend to implement a programme to review the performance and structure of the team as a unit and to ensure that the members of the Board collectively function in an efficient and productive manner.</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 <i>and</i> 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

(continued)

Principle	Extent of current compliance	Commentary	Further disclosure(s)
Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board	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 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, GB Stein. The Non-Executive Chairman, RL Grant, is the other member of the Committee.</p>	Corporate Governance Statement

Corporate Governance Statement

(continued)

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

Going Concern

The Directors have prepared cash flow forecasts for the Group for the period to 31 December 2023 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 cash flow forecasts include the forecast revenues from, and the operating costs of, the Group's operations, together with all committed development expenditure, including the impact of the acquisition completed in February 2022.

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

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

JC Harrington

Chief Executive Officer

22 June 2022

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

to the members of Zephyr Energy plc

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Zephyr Energy plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the company balance sheet, the company statement of changes in equity, the company cash flow statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for Opinion

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

Independence

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

Conclusions relating to Going Concern

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

Given of the judgements made by the Directors, and the significance of this area, we have determined going concern to be a key area of focus for the audit. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting and response to the key audit matter is included in the "Key Audit Matters" section below.

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

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

Independent Auditor's Report

(continued)

Overview

Coverage ⁽¹⁾	98% of Group profit before tax
	100% of Group revenue
	90% of Group total assets
Key audit matters	2021
	Carrying value of oil and gas assets ✓
	Going concern ✓
⁽¹⁾ These are areas which have been subject to a full scope audit by the group engagement team.	
Materiality	Group financial statements as a whole
	\$600,000 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 North Dakota, USA. 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: Zephyr Energy plc and the US based subsidiary Rose Petroleum (US) LLC.

The financial information of the remaining non-significant components were principally subject to analytical review procedures.

All audit work was undertaken by the Group audit team.

Independent Auditor's Report

(continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters below to be the key audit matters 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 assets in North Dakota and Montana, USA</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 and development assets 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 and they have concluded that the producing assets form a single cash generating unit (CGU).</p> <p>We consider this area to be a key audit matter due to the level of judgement and estimation required to be exercised.</p>	<p>Our specific 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") against the requirements of accounting standards for the purpose of the impairment assessment; • Examining management's assessment of impairment indicators against the requirements of the applicable accounting standards; • Assessing performance since acquisition in the financial year 2021 for the oil and gas fields, included in the CGU by reviewing the production volumes, operating and transportation costs against the forecasts prepared as part of Competent Person's Report; • Performing a review of Management's economic model assumptions, challenging the appropriateness of estimates with reference to historical data and external evidence where available; • Assessing the consistency of the reserves and resources and related future cash flows as per the Management's impairment indicators' assessment with the economic forecasts as per the latest Competent Person's Report; • Assessing the Management's experts preparing the Competent Person's Report on the reserves, particularly focused on the competency of the expert and the scope of their work to ensure the Competent Person's Report was prepared under the required guidelines and is appropriate for its intended purpose. <p>Key observations</p> <p>Based on procedures performed we found the judgements and estimates applied by Management in assessing for potential triggers for impairment of the oil and gas development and producing assets were appropriate and that their conclusion that there was no impairment as of 31 December 2021 to be supportable and appropriate.</p>

Independent Auditor's Report

(continued)

Key audit matter		How the scope of our audit addressed the key audit matter
<p>Going concern</p> <p>Refer to note 3</p>	<p>The Directors are required to make an assessment of the Parent Company's and the Group's ability to continue as a going concern. Where material uncertainties are identified these are required to be disclosed.</p> <p>As detailed in note 3, the Directors have concluded that the going concern basis of preparation is appropriate and no material uncertainties exist.</p> <p>We consider this area to be a key audit matter due to the level of judgement and estimation required to be exercised with respect to the going concern assessment and the related disclosures.</p>	<p>Our specific audit procedures in this regard included:</p> <ul style="list-style-type: none"> • Obtaining and evaluating the Board papers assessing going concern and viability for the forecast period, the assessment of risks and uncertainties and the supporting cash flow forecasts prepared by Management. We formed our own assessment of risks and uncertainties based on our understanding of the business and oil and gas sector; • Performing a detailed review of the cash flow forecasts prepared by Management and assessing the appropriateness of the period over which going concern is being assessed; • Assessing Management's 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 approved by the Board against actual performance for the year 2021 and the forecasts presented in the Competent Person's Report both for the assets of the Group as of year-end as well as Competent Person's Report for the oil and gas properties acquired after the year-end in February 2022; • Agreeing the latest available cash position to bank statements; • Agreeing the debt service costs and repayments schedule to third party loan agreements to verify completeness and timing of the related cash outflows in the model and assessing forecast for covenant compliance; • Obtaining and reviewing Management's sensitivity analysis reflecting adverse scenarios by applying a lower than forecast oil price or lower than forecast production; • Reviewing post year end press releases, RNS announcements and board minutes for any indicators of obligations or significant adverse issues; • Reviewing and evaluating the adequacy and completeness of disclosures in the financial statements in respect of going concern. <p>Key observations:</p> <p>Refer to the 'Conclusion relating to going concern' section above.</p>

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Independent Auditor's Report

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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.

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

	Group (US\$)	Parent Company (US\$)
Materiality	600,000	400,000
Basis for determining materiality	1.5% of total assets	1.1% of total assets
Rationale for the benchmark applied	The Group is an oil and gas exploration and production focused business with production started mid-year due to the acquisition of producing assets during the year. Given the Group has not been trading during the whole year and is at an early stage of production from its producing asset base acquired during the year as well as taking into account the prominence of exploration assets on the balance sheet, an asset-based benchmark is considered to be appropriate.	Company is responsible for management of the investments in oil and gas exploration and production assets. Given focus on exploration and recent acquisition of producing assets during the year, an asset-based benchmark is considered appropriate.
Performance materiality	390,000	260,000
Basis for determining performance materiality	65% of materiality for the financial statements as a whole. This is the first year of audit by BDO LLP, hence a lower level of performance materiality	

Component materiality

We set materiality for each significant component of the Group based on a percentage of between 67% and 79% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from \$400,000 to \$472,000. In the audit of each component, we further applied performance materiality levels of 65% 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 \$12,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report

(continued)

Other Information

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

We have nothing to report in this regard.

Other Companies Act 2006 Reporting

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

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.</p>
Matters on which we are required to report by exception	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or the Parent Company financial statements are not in agreement with the accounting records and returns; or certain disclosures of Directors' remuneration specified by law are not made; or we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Independent Auditor's Report

(continued)

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:

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.

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be management override of controls and revenue recognition (refer to the Key Audit Matters set out above).

Our procedures included:

- Holding discussions with the audit engagement team as to how and where fraud might occur in the financial statements and where any potential indicators of fraud may arise in the Group in order to consider how our audit strategy should reflect our considerations;
- Testing the appropriateness of journal entries made throughout the year, to supporting documentation, by applying specific criteria to detect possible irregularities or fraud;
- We assessed and challenged key areas of judgement and estimation made by management, including their assessment of the going concern position of the Parent Company and Group, and their assessment of indicators of impairment to the Group's oil and gas assets (refer to the Key Audit Matters set out above);
- We enquired 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;
- We obtained an understanding of the design and implementation of relevant controls surrounding the financial reporting close process such as controls over the posting of journals and the consolidation process and obtained an understanding of the segregation of duties in these processes; and

Independent Auditor's Report

(continued)

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

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

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

Use of our Report

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

Jack Draycott (Senior Statutory Auditor)

For and on behalf of BDO LLP,
Statutory Auditor
London,
United Kingdom

22 June 2022

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

Consolidated Income Statement

For the year ended 31 December 2021

	Notes	2021 US\$'000	2020 US\$'000
Revenue	16	6,005	–
Operating and transportation expenses		(396)	–
Production taxes		(543)	–
Depreciation, depletion and amortisation		(1,755)	–
Gross profit		3,311	–
Administrative expenses		(2,687)	(1,573)
Share-based payments		(93)	(79)
Foreign exchange gains/(losses)		461	(705)
Other income	6	–	13
Finance costs	7	(144)	–
Profit/(loss) on ordinary activities before taxation	8	848	(2,344)
Taxation charge	11	–	–
Profit/(loss) for the year attributable to owners of the parent company		848	(2,344)
Profit/(loss) per Ordinary Share			
Basic, cents per share	12	0.08	(0.66)
Diluted, cents per share	12	0.07	(0.66)

The notes on pages 42 to 76 form part of the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	2021 US\$'000	2020 US\$'000
Profit/(loss) for the year attributable to owners of the parent company	848	(2,344)
Other comprehensive income		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Foreign currency translation differences on foreign operations	(554)	747
Total comprehensive profit/(loss) for the year attributable to owners of the parent company	294	(1,597)

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The notes on pages 42 to 76 form part of the financial statements.

Consolidated Balance Sheet

As at 31 December 2021

Company No 04573663

	Notes	2021 US\$'000	2020 US\$'000
Non-current assets			
Exploration and evaluation assets	13	22,773	13,914
Property, plant and equipment	14	11,156	28
		33,929	13,942
Current assets			
Trade and other receivables	16	1,263	88
Prepayments and deposits	17	3,573	47
Cash and cash equivalents	18	1,811	3,940
		6,647	4,075
Total assets		40,576	18,017
Current liabilities			
Trade and other payables	19	(5,414)	(2,464)
Leases		–	(8)
Borrowings	20	(4,060)	–
		(9,474)	(2,472)
Non-current liabilities			
Provisions	22	(508)	(7)
Total liabilities		(9,982)	(2,479)
Net assets		30,594	15,538
Equity			
Share capital	23	42,065	41,221
Share premium account	25	52,875	39,638
Warrant reserve	24	89	227
Share-based payment reserve	25	3,065	3,762
Cumulative translation reserve	25	(9,779)	(9,225)
Retained deficit	25	(57,721)	(60,085)
Equity attributable to owners of the parent company		30,594	15,538

The financial statements on pages 34 to 41 were approved by the Directors and authorised for issue on 22 June 2022 and are signed on its behalf by:

CJ Eadie
Finance Director

The notes on pages 42 to 76 form part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital US\$'000	Share premium account US\$'000	Warrant reserve US\$'000	Share-based payment reserve US\$'000	Cumulative translation reserve US\$'000	Retained deficit US\$'000	Total US\$'000
As at 1 January 2020	40,688	37,975	568	3,748	(9,972)	(58,737)	14,270
<i>Transactions with owners in their capacity as owners:</i>							
Issue of equity shares	533	2,401	—	—	—	—	2,934
Expenses of issue of equity shares	—	(738)	—	594	—	—	(144)
Transfer to retained deficit in respect of lapsed warrants	—	—	(341)	(251)	—	592	—
Share-based payments	—	—	—	79	—	—	79
Transfer to retained deficit in respect of lapsed options	—	—	—	(404)	—	404	—
Effect of foreign exchange rates	—	—	—	(4)	—	—	(4)
Total transactions with owners in their capacity as owner	533	1,663	(341)	14	—	996	2,865
Loss for the year	—	—	—	—	—	(2,344)	(2,344)
<i>Other comprehensive income:</i>							
Currency translation differences	—	—	—	—	747	—	747
Total other comprehensive income for the year	—	—	—	—	747	—	(747)
Total comprehensive income for the year	—	—	—	—	747	(2,344)	(1,597)
As at 31 December 2020	41,221	39,638	227	3,762	(9,225)	(60,085)	15,538
<i>Transactions with owners in their capacity as owners:</i>							
Issue of equity shares	816	14,679	—	—	—	—	15,495
Expenses of issue of equity shares	—	(1,442)	—	616	—	—	(826)
Transfer to retained deficit in respect of exercised warrants	—	—	(138)	(629)	—	767	—
Share-based payments	28	—	—	65	—	—	93
Transfer to retained deficit in respect of expired options	—	—	—	(749)	—	749	—
Total transactions with owners in their capacity as owner	844	13,237	(138)	(697)	—	1,516	14,762
Profit for the year	—	—	—	—	—	848	848
<i>Other comprehensive income:</i>							
Currency translation differences	—	—	—	—	(554)	—	(554)
Total other comprehensive income for the year	—	—	—	—	(554)	—	(554)
Total comprehensive income for the year	—	—	—	—	(554)	848	294
As at 31 December 2021	42,065	52,875	89	3,065	(9,779)	(57,721)	30,594

The notes on pages 42 to 76 form part of the financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2021

	2021 US\$'000	2020 US\$'000
Operating activities		
Profit/(loss) on ordinary activities before taxation	848	(2,344)
	848	(2,344)
Adjustments for:		
Finance costs	144	–
Depreciation and depletion of property, plant and equipment	1,778	49
Share-based payments	93	79
Unrealised foreign exchange (gain)/loss	(451)	739
Operating cash inflow/(outflow) before movements in working capital	2,412	(1,477)
Increase in trade and other receivables	(1,079)	(57)
(Increase)/decrease in prepayments and deposits	(572)	37
Increase in trade and other payables	172	147
Cash generated from/(used in) operations	933	(1,350)
Income tax paid	–	–
Net cash inflow generated from/(used in) operating activities	933	(1,350)
Investing activities		
Additions to exploration and evaluations assets	(9,083)	(2,165)
Acquisition of oil and gas properties	(5,443)	–
Additions to oil and gas properties	(7,031)	–
Deposits paid	(3,000)	(3)
Increase in capital expenditure related payables	2,773	1,813
Additions to plant and machinery	(4)	–
Grant funds received	290	1,800
Net cash (used in)/generated from investing activities	(21,498)	1,445
Financing activities		
Net proceeds from issue of shares	14,669	2,790
Repayment of lease liabilities	(8)	(45)
Proceeds from borrowings	4,060	–
Interest paid on borrowings	(124)	–
Increase in prepayments and deposits	(50)	–
Net cash generated from financing activities	18,547	2,745
Net (decrease)/increase in cash and cash equivalents	(2,018)	2,840
Cash and cash equivalents at beginning of year	3,940	1,084
Effect of foreign exchange rate changes	(111)	16
Cash and cash equivalents at end of year	1,811	3,940

The notes on pages 42 to 76 form part of the financial statements.

Company Balance Sheet

As at 31 December 2021

Company No 04573663

	Notes	2021 US\$'000	2020 US\$'000
Non-current assets			
Investments	15	35,063	16,923
Property, plant and equipment	14	9	28
		35,072	16,951
Current assets			
Trade and other receivables	16	33	22
Prepayments	17	31	13
Cash and cash equivalents	18	1,574	2,245
		1,638	2,280
Total assets		36,710	19,231
Current liabilities			
Trade and other payables	19	(457)	(316)
Leases		–	(8)
Borrowings	20	(4,060)	–
		(4,517)	(324)
Total liabilities		(4,517)	(324)
Net assets		32,193	18,907
Equity			
Share capital	23	42,065	41,221
Share premium account	25	52,875	39,638
Warrant reserve	24	89	227
Share-based payment reserve	25	3,065	3,762
Cumulative translation reserve	25	(8,247)	(7,743)
Retained deficit	25	(57,654)	(58,198)
Total equity		32,193	18,907

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

The loss for the Company for the year ended 31 December 2021 is US\$972,000 (2020: loss of US\$326,000).

The financial statements on pages 34 to 41 were approved by the Directors and authorised for issue on 22 June 2022 and are signed on its behalf by:

CJ Eadie

Finance Director

The notes on pages 42 to 76 form part of the financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital US\$'000	Share premium account US\$'000	Warrant reserve US\$'000	Share-based payment reserve US\$'000	Cumulative translation reserve US\$'000	Retained deficit US\$'000	Total US\$'000
Transactions with owners in their capacity as owners:	40,688	37,975	568	3,748	(8,344)	(58,464)	16,171
<i>Issue of equity shares</i>	533	2,401	—	—	—	—	2,934
Expenses of issue of equity shares	—	(738)	—	594	—	—	(144)
Transfer in respect of lapsed options	—	—	(341)	(251)	—	592	—
Share-based payments	—	—	—	79	—	—	79
Transfer to capital contribution in respect of lapsed options	—	—	—	(404)	—	—	(404)
Effect of foreign exchange rates	—	—	—	(4)	—	—	(4)
Total transactions with owners in their capacity as owner	533	1,663	(341)	14	—	592	2,461
Loss for the year	—	—	—	—	—	(326)	(326)
<i>Other comprehensive income:</i>							
Currency translation differences	—	—	—	—	601	—	601
Total other comprehensive income for the year	—	—	—	—	601	—	(601)
Total comprehensive income for the year	—	—	—	—	601	(326)	(275)
As at 31 December 2020	41,221	39,638	227	3,762	(7,743)	(58,198)	18,907
<i>Transactions with owners in their capacity as owners:</i>							
Issue of equity shares	816	14,679	—	—	—	—	15,495
Expenses of issue of equity shares	—	(1,442)	—	616	—	—	(826)
Transfer to retained deficit in respect of exercised warrants	—	—	(138)	(629)	—	767	—
Share-based payments	28	—	—	65	—	—	93
Transfer to retained deficit in respect of expired options	—	—	—	(749)	—	749	—
Total transactions with owners in their capacity as owner	844	13,237	(138)	(697)	—	1,516	14,762
Loss for the year	—	—	—	—	—	(972)	(972)
<i>Other comprehensive income:</i>							
Currency translation differences	—	—	—	—	(504)	—	(504)
Total other comprehensive income for the year	—	—	—	—	(504)	—	(504)
Total comprehensive income for the year	—	—	—	—	(504)	(972)	(1,476)
As at 31 December 2021	42,065	52,875	89	3,065	(8,247)	(57,654)	32,193

The notes on pages 42 to 76 form part of the financial statements.

Company Cash Flow Statement

For the year ended 31 December 2021

	2021 US\$'000	2020 US\$'000
Operating activities		
Loss before taxation	(972)	(326)
Finance income	(370)	(273)
Finance costs	137	–
Adjustments for:	–	152
Depreciation of property, plant and equipment	23	39
Share-based payments	93	85
Unrealised foreign exchange	(332)	113
Operating cash outflow before movements in working capital	(1,421)	(362)
(Increase)/decrease in trade and other receivables	(11)	8
(Increase)/decrease in prepayments and deposits	(18)	46
Increase in trade and other payables	128	102
Net cash used in operating activities	(1,322)	(206)
Investing activities		
Loans to subsidiary undertakings	(17,930)	(1,390)
Purchase of property, plant and equipment	(4)	–
Net cash used in investing activities	(17,934)	(1,390)
Financing activities		
Net proceeds from the issue of shares	14,669	2,790
Repayment of lease liabilities	(8)	(35)
Proceeds from borrowings	4,060	–
Interest paid on borrowings	(124)	–
Net cash generated from financing activities	18,597	2,755
Net (decrease)/increase in cash and cash equivalents	(659)	1,159
Cash and cash equivalents at beginning of year	2,245	1,070
Effect of foreign exchange rate changes	(12)	16
Cash and cash equivalents at end of year	1,574	2,245

The notes on pages 42 to 76 form part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2021

1. Corporate Information

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

In July 2021, the Company’s Ordinary Shares were 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 existing Ordinary Shares on AIM is not affected by the OTCQB facility.

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

2. Adoption of New and Revised Standards

Standards adopted during the year

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

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

- Amendment to IFRS 16 – *Covid-19 related rent concessions beyond 30 June 2021*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest rate benchmark reform phase 2*

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 2021. They are as follows:

- Amendments to IAS 1 – *Classification of liabilities as current or non-current*
- Amendments to IFRS 17 – *Insurance contracts*
- Amendments to IFRS 17 – *Initial application of IFRS 17 and IFRS 9 – comparative information*
- Amendments to IFRS 3 – *Reference to the conceptual framework*
- Amendments to IFRS 12 – *Deferred tax related assets and liabilities arising from a single transaction*
- Amendments to IAS 16 – *Property, plant and equipment – proceeds before intended use*
- Amendments to IAS 37 – *Onerous contracts – cost of fulfilling a contract*
- Amendments to IAS 1 and IFRS practice statement 2 – *Disclosure of accounting policies*
- Amendments to IAS 8 – *Definition of accounting estimates*
- Annual improvements to IFRS standards 2018-2020

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

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies

Basis of Preparation

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in the Group's consolidated financial statements and the Company financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

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

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

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

Going concern

The Directors have prepared cash flow forecasts for the Group for the period to 31 December 2023 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 cash flow forecasts include its normal operating costs for operations together with all committed development expenditure, including the impact of the acquisition completed in February 2022. The forecasts also take account of the Company's recent fundraise and borrowings in February 2022, and the near-term CAPEX requirements for, and the forecast revenues from, the Paradox project and the non-operated portfolio of assets, together with proposed committed development expenditure. The cash flow forecasts indicate that the Group currently has sufficient cash resources to service these costs over the forecast period.

The Group will meet its working capital requirements and financing costs from existing cash resources and future cash flows generated from its producing assets. At the year end, the Group had cash and cash equivalents amounting to US\$1.8 million (2020: US\$3.9 million).

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

Basis of consolidation

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

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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

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

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 acquiree.

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

Business combinations and asset acquisitions

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

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

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

Investments in subsidiary undertakings

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

Exploration and evaluation assets

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

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

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

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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

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

Treatment of E&E assets at conclusion of appraisal activities

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

Intangible E&E assets that related to E&E activities that are determined not to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost less accumulated amortisation, subject to meeting a pool-wide impairment test in accordance with the accounting policy for impairment of E&E assets set out below. Such E&E assets are amortised on a unit-of-production basis over the life of the commercial reserves of the pool to which they relate.

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

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

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

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

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

Grant income

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

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

Property, plant and equipment

Oil and gas properties

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

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

Plant and machinery and right-of-use assets

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

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

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

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

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

Impairment of property, plant and equipment

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

Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the Directors consider the asset impaired and writes it down to its recoverable amount. In assessing value-in-use, the Directors discount the estimated future cash flows 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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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 cash flows measured in accordance with the terms of the Joint Operating agreement and the accounting treatment reflects the agreement's commercial effect.

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

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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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

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

Retirement benefits

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

Taxation

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

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

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

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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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

Investments and other financial instruments

Recognition of financial assets and financial liabilities

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

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

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

Derecognition of financial assets and financial liabilities

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

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

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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

Cash and cash equivalents

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

Trade and other payables

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

Equity instruments

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

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

Warrants

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

Leases

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

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

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

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

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

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

Borrowings

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

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

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

Provisions

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

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

Decommissioning

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

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

The unwinding of the discount on the decommissioning liability is included as accretion of the provision and is presented in finance costs in the Consolidated Statement of Income.

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.

Notes to the Financial Statements

(continued)

3. Significant Accounting Policies (continued)

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.

Segmental reporting

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

Critical judgements

Exploration and evaluation assets – Group

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

There has been no transfer of exploration and evaluation assets during the year ended 31 December 2021.

Notes to the Financial Statements

(continued)

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

Business combinations and asset acquisitions – Group

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

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 considered to be a business combination and the Group applies the acquisition method to account for the recognition and measurement of identifiable assets acquired, the liabilities assumed, any non-controlling interest and, if applicable, goodwill or a gain on the transaction.

During the year ended 31 December 2021, the Group acquired non-operated working interests in a number of wells in the Williston Basin, North Dakota, U.S. The Directors consider that the acquisitions meet the requirements of the concentration test and, therefore, each of the transactions have been accounted for as an acquisition of assets and are presented within property, plant and equipment. See note 14.

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 cash flows from reserves include reserves estimated by the Group's independent third party reserve evaluators. It is possible that any or all of these key assumptions may change, which may then impact the estimated values of the oil and gas properties and then require a material adjustment to the carrying value of E&E assets and property, plant and equipment. Significant management judgement is required to analyse internal and external indicators of impairment or historical impairment reversals. The Group monitors internal and external indicators of impairment relating to its tangible and intangible assets.

Recoverability of loans to subsidiary undertakings – Company only

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

In accordance with IFRS 9 *Financial instruments*, as the subsidiary undertakings cannot repay the loans at the reporting date, the Board has made an assessment of expected credit losses ("ECL"). The Group has not made any provision for impairment of its U.S. non-current assets and is expecting to generate profits in the future. As a result, the Board do not consider that any further provision for ECL is required and, therefore, subject to the recognition of exchange differences, a cumulative lifetime ECL of US\$31.8 million has been recognised at 31 December 2021 (2020: US\$32.1 million).

At 31 December 2021, the Company has total loans in its directly held subsidiaries of US\$66.9 million (2020: US\$49 million). See note 15.

Notes to the Financial Statements

(continued)

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

Reserve estimates

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

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

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

Decommissioning

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

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 O&G resources based in the U.S. As a result, no segmental information is presented.

6. Other Income

	2021 US\$'000	2020 US\$'000
COVID-19 business rates grant	–	13

During the year ended 31 December 2020, the Group was in receipt of the business rates grant introduced by the UK government to provide financial support to businesses during the COVID-19 pandemic. No further support has been required or received by the Group during the year ended 31 December 2021.

7. Finance Costs

	2021 US\$'000	2020 US\$'000
Loan interest and fees	137	–
Unwinding of discount on decommissioning	7	–
	144	–

Notes to the Financial Statements

(continued)

8. Profit/(Loss) before Taxation

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

	2021 US\$'000	2020 US\$'000
Other income	–	(13)
Depreciation and depletion of property, plant and equipment	1,778	49
Staff costs excluding share-based payments	892	649
Share-based payments	93	79
Expense relating to short-term leases	7	–
Net foreign exchange (gains)/losses	(461)	705

9. Auditor's Remuneration

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

	BDO LLP 2021 US\$'000	RSM UK Audit LLP 2020 US\$'000
Audit of these financial statements	103	49
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	–	5
Taxation services – compliance	–	3
	103	57

10. Staff Costs

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

	Group		Company	
	2021 Number	2020 Number	2021 Number	2020 Number
Office and management	2	2	1	1
Operations	1	1	1	1
	3	3	2	2

Their aggregate remuneration comprised:

	Group		Company	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Wages and salaries	945	673	452	317
Social security costs	60	42	53	36
Other pension costs	53	30	28	15
Share-based payments	49	51	26	33
	1,107	796 ⁽¹⁾	559	401

⁽¹⁾ A proportion of staff costs were deferred during the year ended 31 December 2020. See note 28.

Notes to the Financial Statements

(continued)

10. Staff Costs (continued)

Included within Group wages and salaries is US\$0.15 million (2020: US\$0.1 million) capitalised to exploration and evaluation assets, and US\$ 0.02 million (2020: US\$ nil) capitalised to property, plant and equipment.

Included within Company wages and salaries is US\$0.27 million (2020: US\$0.2 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.

11. Taxation

	2021 US\$'000	2020 US\$'000
Current tax:		
Current year	—	—
Deferred tax:		
Origination and reversal of temporary differences	—	—
Tax charge on loss for the year	—	—

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

	2021 US\$'000	2020 US\$'000
Profit/(loss) before tax	848	(2,344)
Profit/(loss) multiplied by the rate of corporation tax for UK companies of 19% (2020: 19%)	161	(445)
Effects of:		
Share-based payments	17	15
Utilised tax losses brought forward	(346)	—
Unrelieved tax losses carried forward	168	430
Tax charge on profit/(loss) for the year	—	—

The Group did not have any tax payable in the U.S. due to the utilisation of prior year tax losses.

There has been no impact due to changes in UK taxation rates during the years reported. The enacted UK corporation tax rate of 25% forms the basis for the UK element of the deferred tax calculation, following the UK budget in 2021 when the chancellor announced an increase to the main rate of corporation tax in the UK to 25% from April 2023.

Unrelieved tax losses carried forward, as detailed in note 21, have not been recognised as a deferred tax asset as the Group has not yet shown sustainable profitability and there is currently insufficient evidence that the asset will be recoverable in the foreseeable future. The losses must be utilised in relation to the same operations.

Notes to the Financial Statements

(continued)

12. Profit/(Loss) per Ordinary Share

Basic profit/(loss) per Ordinary Share is calculated by dividing the net profit/(loss) for the year by the weighted average number of Ordinary Shares in issue during the year. Diluted profit/(loss) per Ordinary Share is calculated by dividing the net profit/(loss) 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.

Due to the losses incurred in the year ended 31 December 2020, there was no dilutive effect from the share options or warrants.

At 31 December 2021, 2.8 million share options and 15 million warrants were excluded from the diluted number of shares as they were anti-dilutive.

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

	2021 US\$'000	2020 US\$'000
Profits/(losses)		
Profits/(losses) for the purpose of basic and diluted profit/(loss) per Ordinary Share being net profit/(loss) for the year	848	(2,344)
	Number 000	Number '000
Number of shares		
Weighted average number of shares for the purpose of basic profit/(loss) per Ordinary Share	1,116,414	357,951
Number of shares		
Weighted average number of shares for the purpose of basic profit/(loss) per Ordinary Share	1,116,414	357,951
Dilutive share options	42,510	–
Dilutive warrants	100,033	–
Weighted average number of shares for the purpose of diluted profit/(loss) per Ordinary Share	1,258,957	357,951
Basic, cents per share	0.08	(0.66)
Diluted, cents per share	0.07	(0.66)

Notes to the Financial Statements

(continued)

13. Exploration and Evaluation Assets

	US\$'000
Cost	
At 1 January 2020	13,549
Additions	2,165
Grant funds received	(1,800)
At 1 January 2021	13,914
Additions	9,149
Grant funds received	(290)
At 31 December 2021	22,773

In July 2021, the Group announced that it had acquired an additional 12,260 acres in the Paradox Basin at a cost of US\$ 0.1 million, following which, the Group will operate a total of 37,613 gross acres in the Paradox Basin, the majority of which the Group holds as operator with a 75% working interest.

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

U.S. Department of Energy Funding

During the year, the Group received grant funding of US\$0.3 million (2020: US\$1.8 million), together with an additional agreed sum of US\$0.1 million, from the EGI as described above. In accordance with IAS 20, the carrying value of the Group's exploration and evaluation assets have been presented net of the funds received.

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

Impairment

The Directors considered the indicators of impairment as set out in IFRS 6 and have satisfied themselves that there was no requirement to perform an impairment test at 31 December 2021 and, as a result, no provision for impairment has been made in respect of these assets at 31 December 2021 (2020: US\$ nil). See note 4.

Notes to the Financial Statements

(continued)

14. Property, Plant and Equipment

	Group				Company		
	Oil and gas properties US\$'000	Plant and machinery US\$'000	Right-of-use assets US\$'000	Total US\$'000	Plant and machinery US\$'000	Right-of-use assets US\$'000	Total US\$'000
Cost							
At 1 January 2020	–	159	90	249	22	55	77
Disposal	–	(39)	(34)	(73)	–	–	–
Exchange differences	–	9	1	10	1	2	3
At 1 January 2021	–	129	57	186	23	57	80
Acquisitions	5,443	–	–	5,443	–	–	–
Additions	7,459	4	–	7,459	4	–	4
De-recognition	–	(106)	(57)	(163)	–	(57)	(57)
At 31 December 2021	12,902	27	–	12,929	27	–	27
Accumulated depreciation							
At 1 January 2020	–	142	30	172	5	5	10
Charge for the year	–	5	44	49	5	34	39
Disposal	–	(39)	(34)	(73)	–	–	–
Exchange differences	–	9	1	10	1	2	3
At 1 January 2021	–	117	41	158	11	41	52
Charge for the year	1,755	7	16	1,778	7	16	23
De-recognition	–	(106)	(57)	(163)	–	(57)	(57)
At 31 December 2021	1,755	18	–	1,773	18	–	18
Carrying amount							
At 31 December 2021	11,147	9	–	11,156	9	–	9
At 31 December 2020	–	12	16	28	12	16	28
At 1 January 2020	–	17	60	77	17	50	67

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

	2021 US\$'000	2020 US\$'000
Cost of sales	1,755	–
Administrative expenses	23	49
	1,778	49

Notes to the Financial Statements

(continued)

14. Property, Plant and Equipment (continued)

Acquisitions

During the year ended 31 December 2021, the Group acquired non-operated working interests in a number of projects located in the Williston Basin, North Dakota, U.S.

Williston-Whiting acquisition

In March 2021, the Group completed the acquisition of non-operated working interests, ranging from 16.8% to 27.2% in five wells, one producing and 4 DUCs. The wells are operated by Whiting Petroleum and target the middle Bakken reservoir in Mountrail County, North Dakota U.S. The initial cost of the acquisition was US\$350,000, with an additional payment of US\$3.9 million being paid to the operator in respect of historical CAPEX obligations on the project.

All five wells were in put in production with first revenues having been received during the year.

Continental acreage

In May 2021, the Group completed the acquisition of 11.6 acres in the Williston Basin which gave it a non-operating working interest in a Drilling Space Unit ("DSU") operated by Continental Resources Inc., the largest operator in the Williston Basin. The cost of the acquisition was US\$ 170,000.

Continental had already commenced drilling two initial wells on the DSU with up to an additional 22 future wells to drilled by 2023. The first two initial wells had been completed and put in production with first revenues having been received during the year.

Williston-Prima acquisition

In September 2021, the Group completed the acquisition of 72.5 acres resulting in an average 5.6% non-operated working interest in four DUC wells. The wells are operated by Prima Exploration Inc in the middle Bakken reservoir in Richland County, Montana. The cost of the acquisition was US\$80,000.

All four well had been completed with first revenues having been received from three wells during the year.

Slawson-Whiting acquisition

In September 2021, the Group completed the acquisition of an average 3.1% non-operating working interest in 11 wells, one currently being drilled and 10 DUC wells. The wells are operated by Whiting Petroleum and target the middle Bakken reservoir in Mountrail County, North Dakota. The cost of the acquisition was US\$888,000.

Two wells had been completed with first revenues having been received during the year.

IFRS 3 Business combinations

As permitted by the amendment to IFRS 3, the Group elected to apply the concentration test to each of the acquisitions made during the year. The Board considers that each acquisition individually meets the requirements of the concentration test and they have, therefore, been accounted for as an acquisition of assets rather than a business combination. See note 4.

The fair value of the assets acquired is deemed to be equal to the fair value of the consideration transferred and the asset acquisitions have been presented within property, plant and equipment. In the year ended 31 December 2021, the Group added USD 5.4 million related to acquisitions and US\$0.4 million in respect of the Group's asset retirement obligations. The remaining additions are primarily attributable to recurring capital expenditures.

Impairment

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

Notes to the Financial Statements

(continued)

15. Investments

	Company		Total US\$'000
	Shares in subsidiary undertakings US\$'000	Loans to subsidiary undertakings US\$'000	
Cost			
At 1 January 2020	5,161	46,370	51,531
Additions	–	1,252	1,252
Exchange differences	148	1,366	1,514
At 1 January 2021	5,309	48,988	54,297
Additions	–	18,299	18,299
Exchange differences	(46)	(436)	(482)
At 31 December 2021	5,263	66,851	72,114
Impairment			
At 1 January 2020	5,160	31,170	36,330
Exchange differences	149	895	1,044
At 1 January 2021	5,309	32,065	37,374
Exchange differences	(46)	(277)	(323)
At 31 December 2021	5,263	31,788	37,051
Carrying amount			
At 31 December 2021	–	35,063	35,063
At 31 December 2020	–	16,923	16,923

Company

The Company has outstanding loans made to its subsidiaries which incur interest at a commercial rate, according to the Group's inter-company loan policy. The loans are due for repayment once the subsidiaries 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 cash flows arising to the Company from its subsidiary entities and consider that no additional provision (2020: US\$ nil) should be recognised in the period.

Notes to the Financial Statements

(continued)

15. Investments (continued)

The Company had investments in the following subsidiary undertakings as at 31 December 2021:

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

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

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

16. Petroleum and Natural Gas Revenue and Trade and Other Receivables

Revenue

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

	2021 US\$'000	2020 US\$'000
Crude oil	5,359	–
Natural gas liquids	391	–
Natural gas	255	–
	6,005	–

Trade and Other Receivables

	Group		Company	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Trade receivables	1,227	–	–	–
VAT recoverable	32	28	33	22
Other receivables	4	60	–	–
	1,263	88	33	22

Trade receivables are due from third-party working interest operators. The Group consistently assesses the collectability of these receivables and at 31 December 2021 do not consider that any allowance for credit losses is required.

Notes to the Financial Statements

(continued)

16. Petroleum and Natural Gas Revenue and Trade and Other Receivables (continued)

The Group has an outstanding amount due of US\$0.2 million in respect of a loan made during the year ended 31 December 2017, relating to the sale of its Mexico ore processing mill to Magellan. The loan is non-interest bearing and due for repayment when Magellan recovers indirect tax incurred in Mexico. In accordance with IFRS 9 Financial instruments, whilst the Board intends to pursue repayment of the loan in full, it has assessed expected credit losses ("ECL") and, having considered the current trading position of Magellan within Mexico, a cumulative lifetime ECL of US\$ 0.2 million continues to be recognised at 31 December 2021 (2020: US\$0.2 million).

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

17. Prepayments and Deposits

	Group		Company	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Prepaid deposit	3,000	–	–	–
Prepayments and accrued income	573	47	31	13
	3,573	47	31	13

The prepaid deposit represents a non-refundable deposit paid in respect of an agreement, subject to conditions precedent, with Kaiser Acquisition and Development to acquire a portfolio of non-operated working interest in wells located in the Williston Basin. The acquisition completed in February 2022. See note 29.

18. Cash and Cash Equivalents

Cash and cash equivalents held by the Group and the Company as at 31 December 2021 were US\$1.8 million and US\$1.6 million respectively (2020: US\$3.9 million, US\$2.2 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

	Group		Company	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Trade payables	3,524	1,949	137	55
Taxes and social security	20	16	20	16
Other payables	116	124	–	–
Accruals	1,754	375	300	245
	5,414	2,464	457	316

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

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

No interest is generally charged on balances outstanding.

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

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

Notes to the Financial Statements

(continued)

20. Borrowings

	Group		Company	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Current	4,060	–	4,060	–
	Group		Company	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Maturity analysis				
Amounts due within one year	4,060	–	4,060	–

On 22 November 2021, the Group announced that it had drawn down a bridge loan facility of US\$4 million (£3 million) provided by a number of sources, including certain Directors and Shareholders, which were primarily to fund payment of the non-refundable deposit due in respect of an agreement with Kaiser Acquisition and Development to acquire a portfolio of non-operated working interest in wells located in the Williston Basin. See note 17 and note 28.

The terms of these loan agreements include payment of a 2 per cent arrangement fee and interest payable at the rate of 1 per cent per month payable monthly in arrears. These loans are due for repayment on 22 May 2022 but can be repaid earlier at the Group's discretion subject to a 3 per cent early repayment charge.

On 22 February 2022, the Group repaid US\$2.2 million plus a 3 per cent early repayment charge. Repayment of the remaining loans was extended to 21 November 2022 and the rate of interest increased to 1.25 per cent per month.

21. Deferred Tax

There are unrecognised deferred tax assets in relation to:

	2021 US\$'000	2020 US\$'000
UK tax losses	6,734	5,622
US Tax losses	7,373	9,120
Mexican tax losses	–	397
	14,107	15,139

The enacted UK corporation tax rate of 25% forms the basis for the UK element of the deferred tax calculation, following the UK budget in 2021 when the chancellor announced an increase to the main rate of corporation tax in the UK to 25% from April 2023.

A deferred tax asset has not been provided in respect of these losses as the Group has not yet shown sustainable profitability and there is currently insufficient evidence that the asset will be recoverable in the foreseeable future.

Notes to the Financial Statements

(continued)

22. Provisions

	Group Decommissioning	
	2021 US\$'000	2020 US\$'000
At 1 January	7	57
Provision utilised	–	(57)
Additional provisions	400	7
Change in estimates	94	–
Accretion interest	7	–
At 31 December	508	7
Non-current provision	508	7

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 2021, the Group made a provision for the decommissioning of the wells acquired during the year as at the date of acquisition, and recognised any changes in estimates in respect of all relevant assets at 31 December 2021. See note 4.

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

	31 December 2021 %	31 December 2020 %
Inflation factor	2.46	1.36-2.28
Risk free rate	1.94	1.45-2.24

The cost of recognising the decommissioning provision is included as part of the cost of the relevant asset and the provision at 31 December 2021 has been recognised as follows:

	2021 US\$'000	2020 US\$'000
Exploration and evaluation assets	73	7
Production and development assets	428	–
Unwinding of discount rate	7	–
	508	7

Notes to the Financial Statements

(continued)

23. Share Capital

	Group and Company			
	2021		2020	
	Number '000	US\$'000	Number '000	US\$'000
Authorised				
Ordinary Shares of 0.1p each	7,779,297	10,528	7,779,297	10,620
Deferred Shares of 9.9p each	227,753	30,515	227,753	30,781
	8,007,050	41,043	8,007,050	41,401
Allotted, issued and fully paid				
Ordinary Shares of 0.1p each	1,304,746	1,760	696,202	916
Deferred Shares of 9.9p each	227,753	40,305	227,753	40,305
	1,532,499	42,065	923,955	41,221

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

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

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

On 19 April 2021, the Company issued 300,000,000 Ordinary Shares of 0.1p each at a price of 2 per share, raising gross proceeds of US\$8.4 million (£6.0 million).

On 19 April 2021, the Company issued 2,428,885 Ordinary Shares of 0.1p in lieu of professional fees due to a service provider engaged by the Company. See note 26.

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

On 30 June 2021, the Company issued 19,868,455 Ordinary Shares of 0.1p each at a price of 0.55p per share, raising gross proceeds of US\$0.15 million (£0.11 million), in respect of the exercise of warrants. See note 26.

On 29 October 2021, the Company issued 2,727,273 Ordinary Shares of 0.1p each at a price of 1.32p per share, raising gross proceeds of US\$49,227 (£36,000), in respect of the exercise of warrants. See note 26.

Notes to the Financial Statements

(continued)

23. Share Capital (continued)

Between 1 February 2021 and 9 November 2021, the Company issued 34,545,455 Ordinary Shares of 0.1p each at a price of 2p per share, raising gross proceeds of US\$0.95 million (£0.69 million), in respect of the exercise of warrants. See note 24.

	Ordinary Shares Number '000	Deferred Shares Number '000
At 1 January 2020	287,112	227,753
Allotment of shares	409,090	–
At 1 January 2021	696,202	227,753
Allotment of shares	608,544	–
At 31 December 2021	1,304,746	227,753

24. Warrant Reserve

In November 2019, the Company undertook a fundraise which resulted in the issue of 113,636,364 Ordinary Shares of 0.1 pence each. Subscribers were issued warrants to subscribe for 56,818,182 new Ordinary Shares, representing one warrant for every two placing shares. The warrants were exercisable at a price of 2 pence per Ordinary Share for a period of two years from the date of issue. In November 2021, the Company announced that it had extended the exercise date in respect of 22,272,727 outstanding warrants to 30 June 2022. There was no resulting impact on the fair value charge on these warrants as a result of the extension.

	Warrants Number '000
At 1 January 2020	91,159
Lapsed	(34,341)
At 1 January 2021	56,818
Exercised	(34,545)
At 31 December 2021	22,273

Between 1 February 2021 and 9 November 2021, a total of 34,545,455 warrants were exercised at a price of 2 pence per share, raising gross proceeds of US\$0.95 million (£0.69 million). See note 23.

The fair value of the warrants exercised during the year was US\$0.14 million (Lapsed 2020:US\$ 0.3 million) and this has been recognised as a movement between equity reserves.

No warrants have been issued to subscribers during the year ended 31 December 2021 (2020: US\$ nil).

Notes to the Financial Statements

(continued)

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

The retained deficit includes all current and prior period retained losses.

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.

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

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

At 31 December 2021, 45.3 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

(continued)

26. Share-Based Payments (continued)

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

	2021		2020	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Outstanding at 1 January	45,434	5.93p	11,267	25.75p
Granted	—	—	34,717	0.56p
Forfeited	—	—	(550)	0.73p
Expired	(153)	112.5p	—	—
Outstanding at 31 December	45,281	5.57	45,434	5.93
Exercisable at 31 December	23,948	10.0p	10,800	22.32p

The options outstanding at 31 December 2021 had an estimated weighted average remaining contractual life of 8 years (2020: 9 years), with an exercise price ranging between 0.1p and 342.5p.

There were no options issued during the year ended 31 December 2021 (2020: 34,717,000).

The fair value of the options granted during the year was US\$ nil (2020: US\$ 137,000) in respect of the share options and US\$ nil (2020: US\$ 17,000) in respect of the nil-cost options.

Share-based compensation

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

The fair value of the services provided can be measured directly, and accordingly an expense of US\$27,502 (2020: US\$ nil) has been recognised in the year ended 31 December 2021.

In the year ended 31 December 2021, the Company recognised a total expense of US\$93,104 (2020: US\$79,000) in respect of share-based payments, being US\$65,602 (2020: US\$62,000) in respect of the Share Option Plan, US\$ nil (2020: 17,000) in respect of the nil-cost options and US\$27,502 (2020: US\$ nil) in respect of share-based compensation.

Warrants

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

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

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

Notes to the Financial Statements

(continued)

26. Share-Based Payments (continued)

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 32,350,000 Warrants
Exercise price (pence)	3
Expected volatility (%)	78
Expected life (years)	2.5 years
Risk free rates (%)	0.89
Expected dividends	–
Performance condition	None

The fair value of the warrants issued during the year was US\$0.6 million (2020: US\$ 0.6 million).

Between 26 January 2021 and 30 June 2021, a total of 48,973,418 warrants were exercised at a price of 0.6875p per share, raising gross proceeds of US\$0.47 million (£0.34 million). See note 23.

On 30 June 2021, 19,868,455 warrants were exercised at a price of 0.55p per share, raising gross proceeds of US\$0.15 million (£0.11 million). See note 23.

On 29 October 2021, 2,727,273 warrants were exercised at a price of 1.32p per share, raising gross proceeds of US\$49,227 (£36,000). See note 23.

The fair value of the warrants exercised during the year was US\$0.63 million (Lapsed 2020:US\$ 0.25 million) and this has been recognised as a movement between equity reserves.

In accordance with the Group's accounting policy, the costs of an equity transaction are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided. As a result, there is no impact on the Group's income statement during the year ended 31 December 2021.

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 2020	7,891
Granted	70,202
Lapsed	(5,164)
At 1 January 2021	72,929
Granted	32,350
lapsed	(71,569)
At 31 December 2021	33,710

Notes to the Financial Statements

(continued)

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

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

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

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 and equity attributable to owners of the parent company, comprising issued capital, reserves and retained earnings.

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

Significant Accounting Policies

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

Notes to the Financial Statements

(continued)

27. Financial Instruments (continued)

Categories Of Financial Instruments

	Group		Company	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Financial assets measured at amortised cost				
Cash and cash equivalents	1,811	3,940	1,574	2,245
Trade receivables	1,227	–	–	–
Other receivables	4	60	–	–
Loans to subsidiary undertakings	–	–	35,063	16,923
	3,042	4,000	36,637	19,168
	Group		Company	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
Financial liabilities measured at amortised cost				
Trade payables	3,524	1,949	137	55
Other payables	116	124	–	–
Accruals	1,754	375	300	245
Lease liabilities	–	8	–	8
Borrowings	4,060	4,060	–	43
	9,454	2,456	4,497	308

Fair Value of Financial Instruments

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

Foreign Exchange Risk and Foreign Currency Risk Management

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

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

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

	Liabilities		Assets	
	2021 US\$'000	2020 US\$'000	2021 US\$'000	2020 US\$'000
GBP	116	124	169	189

Notes to the Financial Statements

(continued)

27. Financial Instruments (continued)

Foreign currency sensitivity analysis

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

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

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

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

	2021 US\$'000	2020 US\$'000
Income statement	(2,196)	(1,246)

Interest Rate Risk Management

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

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

Accordingly, no sensitivity analysis has been presented.

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 cash flow.

Credit Risk Management

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

The 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.

Notes to the Financial Statements

(continued)

28. Related Party Transactions

Amounts Due From Subsidiaries

Group

Other than foreign exchange gains/(losses) attributable to the restatement of GBP denominated intercompany loans in the Company's U.S. subsidiaries, balances and transactions between the Company and its subsidiaries which are related parties, have been eliminated on consolidation and are not disclosed in this note. A foreign exchange gain of US\$0.4 million (2020: loss of US\$0.7 million) has been recognised in the Consolidated Income Statement for the year ending 31 December 2021.

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:

	2021		2020	
	Transactions in the year US\$'000	Amounts owing US\$'000	Transactions in the year US\$'000	Amounts owing US\$'000
Loans	17,467	53,870	1,061	36,720
Management charges	462	6,019	309	5,613
Interest (1% over UK base rate)	370	6,321	273	6,009
Capital contribution	–	641	(396)	646

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*.

	2021		2020	
	Purchase of services US\$'000	Amounts owing US\$'000	Purchase of services US\$'000	Amounts owing US\$'000
Short-term employee benefits	928	–	657	148
Post-employment benefits	42	28	28	13
Share-based payments	48	–	60	–
	1,018	28	745	161

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

	2021 No	2020 No
The number of Directors to whom retirement benefits are accruing under money purchase schemes was	2	1

Notes to the Financial Statements

(continued)

28. Related Party Transactions (continued)

Transactions with Related Parties

Services

During the year ended 31 December 2021, the Group received services from Origin Creek Energy LLC which is a related party as JC Harrington is indirectly the controlling Shareholder and RL Grant is also a shareholder.

	2021 US\$'000	2020 US\$'000
Office services	18	2

Interest bearing loans

During the year ended 31 December 2021, the Group received loans from a number of sources, including certain Directors and Shareholders. See note 20.

As at 31 December 2021, there were outstanding loans due to Directors of the Company (including family interests and those entities in which Directors have a controlling interest), and payments have been made as follows:

	Loans outstanding US\$'000	Arrangement fee US\$'000	Interest paid US\$'000	Total US\$'000
RL Grant	169	3	2	5
CJ Eadie	41	1	—	1
Origin Creek Energy LLC ⁽¹⁾	101	2	1	3
	311	6	3	9

⁽¹⁾ JC Harrington is indirectly the controlling Shareholder of Origin Creek Energy LLC

On 22 February 2022, these loans were repaid in full together with a 3 percent early repayment charge.

Share transactions

On 29 March 2021, the Company announced a Placing to raise £10 million by the issue of 500,000,000 new Ordinary Shares of 0.1p each at a price of 2 per Ordinary Share ("Placing Price"). Several Directors participated in the Placing as follows:

- OCE subscribed for 2,500,000 new Ordinary Shares, equivalent to £50,000 at the Placing Price. RL Grant and JC Harrington are both Shareholders and Directors of OCE, and JC Harrington is indirectly the controlling Shareholder of OCE.
- JC Harrington subscribed for 750,000 new Ordinary Shares, equivalent to a total of £15,000 at the Placing Price.
- CJ Eadie and RL Grant each subscribed for 1,500,000 new Ordinary Shares, equivalent to a total of £30,000 at the Placing Price.
- GB Stein subscribed for 500,000 new Ordinary Shares, equivalent to a total of £10,000 at the Placing Price.

Warrant extension

On 22 November 2021, the Company announced that it had extended the exercise period of warrants issued to OCE and CJ Eadie as a result of their participation in an equity placing carried out by the Company in November 2019. In the Placing, OCE invested £480,000 and was issued with 21,818,182 warrants. CJ Eadie invested £10,000 and was issued 454,545 warrants. The expiry of the exercise period of the warrants was extended from 22 November 2021 until 30 June 2022.

Notes to the Financial Statements

(continued)

29. Post Balance Sheet Events

Equity Fundraise

In February 2022, the Company raised gross proceeds of US\$16.3 million (£12 million) by way of a placing of 240 million Ordinary Shares of 0.1p each at a price of 5 pence per Ordinary Share.

In February 2022, the Company also raised gross proceeds of US\$1.1 million (£0.8 million) by way of a placing of 16 million Ordinary Shares of 0.1p each at a price of 5 pence per Ordinary Share by means of a broker option which allowed existing, qualifying shareholders to participate on the same terms as the placing.

Debt facility

In February 2022, received approval from a North Dakota based commercial bank for a US\$28 million senior debt facility, consisting of a fully amortising US\$18 million term loan for a period of 48 months ("Term Loan") and a US\$10 million revolving credit facility ("RCF"). The Term Loan and RCF both incur interest at a fixed rate of 6.74%.

Acquisition

In February 2022, the Group completed the acquisition of 1,960 net acres of non-operated working interests at a cost of US\$36 million.

The purchase resulted in the acquisition of non-operated working interests in 163 currently producing wells with an average working interest of 4%, 18 DUC wells, and 47 proved but undeveloped locations for future drilling, in the Williston Basin, North Dakota, U.S. The wells are operated by Whiting Petroleum, an active and highly experienced operator in the Williston Basin, which serves as the operator of a number of the Group's existing non-operated wells.

Hedging programme

In April 2022, the Group announced the implementations of a hedging programming related to oil productions from its non-operated asset portfolio in the Williston Basin over the following two years. The programme has been implemented with BP Energy Company ("BP") one of the world's leading energy trading houses, as the hedge counterparty.

Important information regarding the Annual General Meeting

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

You will not receive a hard copy form of proxy for the 2022 annual general meeting in the post. Instead, you will be able to vote electronically using the link www.signalshares.com. You will need to log into your account or register if you have not previously done so. To register you will need your investor code, which is detailed on your share certificate or available from our registrar, Link Group.

Voting by proxy prior to the annual general meeting does not affect your right to attend the annual general meeting and vote in person should you so wish. Proxy votes must be received no later than 10 a.m. on 19 July 2022.

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of the Company will be held at the offices of Zephyr Energy plc, First Floor, Newmarket House, Market Street, Newbury, Berks, RG14 5DP on 21 July 2022 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, of which Resolutions 1 to 5 will be proposed as ordinary resolutions and Resolution 6 will be proposed as a special resolution:

Ordinary Resolutions

1. To receive and adopt the annual report and accounts for the year ended 31 December 2021, together with the reports of the Directors and the auditor thereon.
2. To appoint BDO LLP as auditor to act as such until the conclusion of the next annual general meeting of the Company at which the requirements of section 437 of the Companies Act 2006 ("CA 2006") are complied with and to authorise the Directors of the Company to fix its remuneration.
3. To re-elect Richard Lee Grant, who retires by rotation, as a Director.
4. To re-elect Christopher John Eadie, who retires by rotation, as a Director.
5. That the Directors be generally and unconditionally authorised in accordance with section 551 of the CA 2006 to issue and allot Ordinary Shares of £0.001 each in the share capital of the Company ("Ordinary Shares") or grant rights to subscribe for or to convert any security into shares in the Company (together "Rights") up to a maximum nominal amount of £515,046.18 (representing approximately 33 per cent. of the issued share capital of the Company), to such persons at such times and on such terms as they think proper, provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date falling 15 months from the date of the passing of this Resolution, or if earlier, at the conclusion of the annual general meeting of the Company to be held in 2023, save that the Company may at any time before such expiry make an offer or agreement which might require Ordinary Shares to be allotted or Rights to be granted after such expiry and the Directors may allot Ordinary Shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority hereby conferred has expired.

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

Special Resolution

6. THAT, subject to the passing of Resolution 5 above, the Directors be generally empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash as if section 561(1) of the CA 2006 did not apply to any such allotment pursuant to the general authority conferred on them by Resolution 5 above (as varied from time to time by the Company in general meeting) PROVIDED THAT such power shall be limited to:
 - a. the allotment of equity securities in connection with a rights issue or any other offer to:
 - i. holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings; and
 - ii. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

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

Notice of Annual General Meeting

(continued)

- b. the allotment of equity securities pursuant to the terms of any share scheme for Directors and employees of the Company or any of the subsidiaries;
- c. the allotment otherwise than pursuant to sub paragraph (a) to (b) (inclusive) above of equity securities up to an aggregate nominal amount of £156,074.60 representing approximately 10 per cent. of the issued share capital of the Company,

and the power hereby conferred shall operate in substitution for and to the exclusion of any previous power given to the Directors pursuant to section 570 of the CA 2006 and shall expire on whichever is the earlier of the conclusion of the annual general meeting of the Company to be held in 2023 or the date falling 15 months from the date of the passing of this Resolution (unless renewed varied or revoked by the Company prior to or on that date) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the power conferred by this Resolution has expired.

By order of the Board

CJ Eadie
Company Secretary

Registered office:
20-22 Wenlock Road
London
England
N1 7GU

Date: 28 June 2022

Notice of Annual General Meeting

(continued)

Notes to the Notice of Annual General Meeting

Pursuant to Part 13 of the Companies Act 2006 and to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at the close of business on 19 July 2022 (or if the AGM is adjourned, 48 hours before the time fixed for the adjourned AGM,) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

Appointment of proxies

- A shareholder is ordinarily entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting. A proxy need not be a member of the Company.
- Your proxy appointment form must be received by Link Group, PXS 1, Central Square, 29 Wellington Street, Leeds, LS1 4DL, United Kingdom not less than 48 hours before the time appointed for the meeting or any adjourned meeting.
- A vote withheld is not a vote in law which means that the vote will not be counted in the calculation of votes for or against the Resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the annual general meeting.
- You can vote either:
 - by logging on to www.signalshares.com and following the instructions; or via the Link Group shareholder app, LinkVote+. The app is free to download and use and is available to download on both the Apple App Store and Google Play;
 - by requesting a hard copy form of proxy directly from our Registrars, Link Group on telephone number: 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The Registrars are open between 9:00 am – 5:30 pm, Monday to Friday excluding public holidays in England and Wales; or
 - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.
- In each case the appointment of a proxy must be received by Link Group at PXS 1, Link Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL, United Kingdom by 10a.m. on 19 July 2022.
- Under the Company's articles of association, the return of a form of proxy or any CREST Proxy Instruction will not preclude a member from attending and voting at the meeting in person if he/she wishes to do so.
- CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (Link Group, ID RA10) not less than 48 hours before the time appointed for the meeting or any adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

Notice of Annual General Meeting

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- CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and
- limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.
- The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.
- In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

- To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) will also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
- Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Link Group on 0371 664 0391 if calling from the United Kingdom, or +44 (0) 371 664 0391 if calling from outside of the United Kingdom or email Link at enquiries@linkgroup.co.uk. Calls will be charged at local rates. Calls made outside the United Kingdom will be charged at the applicable international rate. The lines are open between 09:00 and 17:30 Monday to Friday, excluding public holidays in England and Wales.
- If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

- In order to revoke a proxy instruction, you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link Group, PXS 1, Central Square, 29 Wellington Street, Leeds, LS1 4DL,
- United Kingdom. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Link Group, PXS 1, Central Square, 29 Wellington Street, Leeds, LS1 4DL, United Kingdom no later than 48 hours prior to the meeting.
- If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.
- Appointment of a proxy does not preclude you from attending the annual general meeting and voting in person. If you have appointed a proxy and attend the annual general meeting in person, your proxy appointment will automatically be terminated.

Notice of Annual General Meeting

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Corporate representatives

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

Issued shares and total voting rights

- As at close of business on 27 June 2022, the Company's issued share capital comprised 1,560,746,001 Ordinary Shares of £0.001 each. Each Ordinary Share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at close of business on 27 June 2022 is 1,560,746,001.

Communication

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

Notice of Annual General Meeting

(continued)

Explanatory Notes To The Notice Of Annual General Meeting

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

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

Resolution 1

This Resolution is to receive and adopt the Directors' reports and accounts for the year ended 31 December 2021, which accompany this document.

Resolution 2

This is a Resolution to appoint BDO LLP as auditor of the Company for the financial year ending 31 December 2022 and to authorise the Directors to fix their remuneration.

Resolutions 3 to 4

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

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

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

Resolution 5

This Resolution, if passed, would authorise the Directors to allot Ordinary Shares or grant Rights to subscribe for or convert any securities into Ordinary Shares up to an aggregate nominal amount of £515,046.18 representing approximately 33 per cent. of the current issued share capital.

The authority being sought in Resolution 5 replaces the authority granted on 30 June 2021.

The authority will expire on the earlier of 15 months from the date the Resolution is passed or the conclusion of the Company's annual general meeting in 2023.

Resolution 6

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

This authority would be limited to an aggregate nominal amount of £156,074.60 (representing approximately 10 per cent of the issued Ordinary Share capital of the Company as at 27 June 2022, being the latest practical date prior to the publication of the notice of the annual general meeting).

As with Resolution 5, the authority being sought pursuant to Resolution 6, replaces the authority granted on 30 June 2021.

The authority and power pursuant to Resolution 6 will expire on the earlier of 15 months from the date of Resolution 6 being passed or the conclusion of the Company's annual general meeting in 2023.

Directors, Advisers and Officers

Directors

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

Secretary

CJ Eadie

Registered Office

20-22 Wenlock Road
London
N1 7GU

Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Registrar

Link Group
29 Wellington Street
Leeds
LS1 4DL

Bankers

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

Solicitors

RBG Legal Services Limited, trading as **Memery Crystal**
165 Fleet Street
London
EC4A 2DY

Nominated Adviser

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

Broker

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



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