RNS Number : 0744U
Zephyr Energy PLC
27 June 2024

Prior to publication, the information contained within this announcement was deemed by the Company to constitute inside information as stipulated under the UK Market Abuse Regulation. With the publication of this announcement, this information is now considered to be in the public domain.

27 June 2024

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

Full Year Results for the year ended 31 December 2023
Notice of AGM

Zephyr Energy plc (AIM: ZPHR) (OTCQB: ZPHRF), the Rocky Mountain oil and gas company focused on responsible resource development, is pleased to announce its audited results for the year ended 31 December 2023.

Rick Grant, Zephyr's Non-Executive Chairman, said:

"I am pleased to present the Company's financial and operational results for the 2023 financial year, a period in which we continued to deliver as a cash-generating oil and gas exploration and production group.

"Despite facing a significant operational challenge during the year, we continued to make steady progress in our pursuit of unlocking the next prolific onshore U.S. oil and gas play.

"With a balanced portfolio of non-operated assets and an operated asset with asymmetric growth potential, our strategy is clear. Cashflows generated from our non-operated asset portfolio in the Williston Basin, North Dakota, will be recycled and reinvested to develop our flagship operated asset in the Paradox Basin, Utah, to acquire and to develop further non-operated assets, and to cover our corporate costs.

"I was delighted by the recent safe and successful drilling operation on the State 36-2R LNW-CC well and we are looking forward to the results from the forthcoming production test.

"I would like to extend my appreciation to the Zephyr team and our contractors for their ongoing work, and I would also like to extend my gratitude to my fellow Board members, leadership team, advisors and most importantly, our Shareholders for their continued support.

"We have an exciting period ahead of us and I believe, more than ever, that we have the pieces in place to enable us to deliver on our strategic objectives successfully."

Notice of AGM and posting of annual report

The Annual General Meeting of the Company (the "AGM") will be held at 11 a.m. on 31 July 2024 at the offices of Memery Crystal, 165 Fleet Street, London EC4A 2DY.

A copy of the Company's annual report and accounts, and the notice of AGM, will shortly be available on Zephyr's website, http://www.zephyrplc.com, and posted to Zephyr's Shareholders this week.

The Group's results and director statements, as extracted from the annual report and accounts, are set out further below.

Contacts

Zephyr Energy plc Tel: +44 (0)20 7225 4590
Colin Harrington (CEO)
Chris Eadie (Group Finance Director and Company Secretary)

Allenby Capital Limited - AIM Nominated Adviser Tel: +44 (0)20 3328 5656
Jeremy Porter / Vivek Bhardwaj

Turner Pope Investments - Joint-Broker Tel: +44 (0)20 3657 0050
James Pope / Andy Thacker

Panmure Gordon (UK) Limited - Joint-Broker Tel: +44 (0) 20 7886 2500
Hugh Rich/ James Sinclair-Ford

Celicourt Communications - Public Relations Tel: +44 (0) 20 7770 6424
Mark Antelme / Felicity Winkles / Ali AlQahtani

Qualified Person

Dr Gregor Maxwell, BSc Hons. Geology and Petroleum Geology, PhD, Technical Adviser to the Board of Zephyr Energy plc, who meets the criteria of a qualified person under the AIM Note for Mining and Oil & Gas Companies - June 2009, has reviewed and approved the technical information contained within this announcement.

Notes to Editors

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

Zephyr's flagship asset is an operated 46,000-acre leaseholding located in the Paradox Basin, Utah, 25,000 acres of which has been assessed to hold, net to Zephyr, 2P reserves of 2.6 million barrels of oil equivalent ("mmboe"), 2C resources of 34 mmboe and 2U resources 270 mmboe.

In addition to its operated assets, the Company owns working interests in a broad portfolio of non-operated producing wells across the Williston Basin in North Dakota and Montana. Cash flow from the Williston production will be used to fund the planned Paradox Basin development. In addition, the Board will consider further opportunistic value-accretive acquisitions.

CHAIRMAN'S STATEMENT

OVERVIEW

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

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

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

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

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

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

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

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

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

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

OPERATIONAL ACTIVITY

Paradox project

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

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

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

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

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

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

Williston project

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

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

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

FINANCIAL

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

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

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

CONCLUSION

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

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

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

RL Grant
Chairman

26 June 2024

CHIEF EXECUTIVE OFFICER'S REPORT AND OPERATING REVIEW

PRINCIPAL OBJECTIVES AND STRATEGIES

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

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

To achieve this mission, the Group has prioritised:

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

- Tight financial control and cash conservation.

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

Overview

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

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

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

In addition to our planned activity on the Paradox project, we expect to see increased cashflows from our non-operated assets over the course of the next financial year, particularly now that the Slawson wells are online. Planning is underway to develop our new farm-in project in the Salt Wash natural gas and helium field. The Salt Wash project will likely be undertaken in a financial partnership with industry participants.

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

Paradox project - operated asset

Background

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

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

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

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

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

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

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

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

State 36-2 well

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

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

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

State 36-2 well production test and well control incident

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

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

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

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

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

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

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

State 36-2R well

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

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

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

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

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

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

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

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

State 16-2LN-CC well update

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

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

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

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

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

Working interest acquisition, WSU restructuring and acreage acquisition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Greentown wells

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

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

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

Farm-in to Salt Wash helium field

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

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

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

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

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

Dominion pipeline availability

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

Williston project - non-operated asset

Overview

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

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

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

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

2023 summary and outlook

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

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

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

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

Slawson wells

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

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

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

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

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

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

Further production additions

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

Hedging

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

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

Corporate

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

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

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

All three officers are based in Denver, Colorado.

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

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

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

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

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

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

Significant decisions made

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

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

Outlook

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

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

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

On behalf of the Board,

JC Harrington

Chief Executive Officer

26 June 2024

FINANCIAL REVIEW

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

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

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

INCOME STATEMENT

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

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

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

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

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

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

BALANCE SHEET

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

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

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

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

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

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

SUBSEQUENT DEVELOPMENTS

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

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

Shares on 2 May 2024.

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

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

KEY PERFORMANCE INDICATORS

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

Safety performance	**Why we measure** • The Group has a zero-harm safety culture focused on continuous improvement to achieve an injury-free and safe work environment • We require employees and contractors to work in a safe and responsible manner and provide them with the training and equipment to do so	**Performance** • There were no reported LTIs during the 2023 financial year (2022: nil) • The Group experienced a well control issue in the 2023 financial year while drilling the State 36-2 well. The incident was professionally managed and did not result in any LTIs or long-term damage to the environment.
Adjusted EBITDA Profit before tax adjusted for DD&A, finance costs, unrealised foreign exchange gains / losses and unrealised hedge gains / losses	**Why we measure** • Indicator of the Group's cash generation to fund expenditures and/or return capital to Shareholders	**Performance** • 2023 Adjusted EBITDA was US$11.8 million • 2022 Adjusted EBITDA was US$28.7 million • The difference between the Adjusted EBITDA for 2023 and the prior year was primarily the result of the standard production decline of the non-operated asset portfolio, lower commodity prices in the year and delays to the six Slawson wells coming online.
Net production	**Why we measure** • Indicator of revenue generation potential • Measure of progress towards achieving production forecasts and driving profitable production growth	**Performance** • 2023 production of 407,600 boe. • 21% decrease in production from 2022 production of 514,650 boe • Decrease primarily the result of the standard production decline of the non-operated asset portfolio, lower commodity prices in the year and delays to the six Slawson wells coming online.
Growth of Paradox project reserves / resources	**Why we measure** • Indicator of economic viability and long-term production potential of projects	**Performance** • No changes to the Paradox reserves / resources during the year • It is expected that a revised Competent Persons Report on the Paradox project will be prepared in the second half of 2024. • At 31 December 2023, the Group had Paradox Basin 2P reserves of 2.6 mmboe, 2C resources of circa 34 mmboe and 2U resources of 270 mmboe
Carbon emissions	**Why we measure** • Zephyr Energy is	**Performance** • Pursued Scope 1 carbon-

	• Zephyr Energy is committed to sustainable and responsible oil and gas production	• Pursued Scope 1 carbon-neutrality from both operated and non-operated assets • VERs credit partnership with Prax which aims to mitigate all Scope 1 carbon emissions.

CJ Eadie

Group Finance Director

26 June 2024

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

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

CONSOLIDATED BALANCE SHEET
As at 31 December 2023

	Notes	2023 US$'000	2022 US$'000
Non-current assets			
Exploration and evaluation assets	13	49,941	37,986
Property and equipment	14	50,840	51,805

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

CONSOLDIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Share capital	Share premium account	Shares to be issued	Warrant reserve	Share-based payment reserve	Cumulative translation reserve	Accumulated deficit	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 1 January 2022	42,065	52,875	-	89	3,065	(9,779)	(57,721)	30,594
Transactions with owners in their capacity as owners:								
Issue of equity shares	347	17,023	-	-	-	-	-	17,370
Exercise of warrants	-	-	539	(122)	-	-	122	539

warrants								
Expenses of issue of equity shares	-	(1,461)	-	-	408	-	-	(1,053)
Warrant exercise extension	-	(33)	-	33	-	-	-	-
Grant of warrants	-	(1,557)	-	1,557	-	-	-	-
Share-based payments	-	-	-	-	210	-	-	210
Transfer to accumulated deficit in respect of lapsed options	-	-	-	-	(387)	-	387	-
Transfer to accumulated deficit in respect of expired warrants	-	-	-	-	(12)	-	12	-
Total transactions with owners in their capacity as owners	347	13,972	539	1,468	219	-	521	17,066
Profit for the year	-	-	-	-	-	-	19,271	19,271
Other comprehensive loss:								
Currency translation differences	-	-	-	-	-	(6,205)	-	(6,205)
Total other comprehensive loss for the year	-	-	-	-	-	(6,205)	-	(6,205)
Total comprehensive income for the year	-	-	-	-	-	(6,205)	19,271	13,066
As at 31 December 2022	42,412	66,847	539	1,557	3,284	(15,984)	(37,929)	60,726
Transactions with owners in their capacity as owners:								
Issue of equity shares	156	5,318	-	-	-	-	-	5,474
Exercise of warrants	-	-	(539)	-	-	-	-	(539)
Expenses of issue of equity shares	-	(430)	-	-	195	-	-	(235)
Share-based payments	-	-	-	-	6	-	-	6
Transfer to accumulated deficit in respect of expired options	-	-	-	-	(215)	-	215	-
Total transactions with owners in their capacity as owners	156	4,888	(539)	-	(14)	-	215	4,706
Loss for the year	-	-	-	-	-	-	(3,503)	(3,503)
Other comprehensive income:								
Currency translation differences	-	-	-	-	-	2,772	-	2,772
Total other comprehensive income for the year	-	-	-	-	-	2,772	-	2,772
Total comprehensive loss for the year	-	-	-	-	-	2,772	(3,503)	(731)

year								
As at 31 December 2023	42,568	71,735	-	1,557	3,270	(13,212)	(41,217)	64,701

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2023

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

SELECTED NOTES TO THE FINANCIAL STATEMENTS (the full set of notes are available in the annual report and accounts)

For the year ended 31 December 2023

2. ADOPTION OF NEW AND REVISED STANDARDS

STANDARDS ADOPTED DURING THE YEAR

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

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

- Amendments to IFRS 17 - *Insurance contracts*

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- Amendments to IAS 1 - *Classification of liabilities as current or non-current*
- Amendments to IFRS 16 - *Lease liability in a sale and leaseback*
- Amendments to IAS 1 - *Non-current liabilities with covenants*
- Amendments to IAS 7 and IFRS 7 - *Supplier finance arrangements*
- Amendments to IAS 21 - *Lack of exchangeability*
- Amendments to IFRS 10 and IAS 28 - *Sale or contribution of assets between an investor and its associate or joint venture*
- *IFRS S1 - General requirements for disclosure of sustainability - related financial information*
- *IFRS S2 - Climate-related disclosures*

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

3. MATERIAL ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

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

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

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

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

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

GOING CONCERN

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

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

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

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

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

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

5. SEGMENTAL INFORMATION

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

6. REVENUE

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

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

7. FINANCE COSTS

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

8. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

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

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

12. (LOSS)/PROFIT PER ORDINARY SHARE

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

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

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

	2023 US$'000	2022 US$'000
(Losses)/profits		
(Losses)/profits for the purpose of basic and diluted (loss)/profit per Ordinary Share being net (loss)/profit for the year	(3,503)	19,271
	2023 Number '000	**2022 Number '000**
Number of shares		
Weighted average number of shares for the purpose of basic (loss)/profit per Ordinary Share	1,644,490	1,533,110
Weighted average number of shares for the purpose of basic (loss)/profit per Ordinary Share	1,644,490	1,533,110
Dilutive share options	-	42,526
Dilutive warrants	-	55,721
Weighted average number of shares for the purpose of diluted (loss)/profit per Ordinary Share	1,644,490	1,631,357
(Loss)/profit per Ordinary Share		
Basic, cents per share	(0.21)	1.26
Diluted, cents per share	(0.21)	1.18

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

13. EXPLORATION AND EVALUATION ASSETS

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

PARADOX ACQUISITION

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

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

The new Ordinary Shares would be issued in two tranches:

- A first tranche of 13,483,095 new Ordinary Shares to be issued in settlement of loan notes of US$1 million, on completion of the acquisition.

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

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

STATE 36-2 WELL CONTROL INCIDENT

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

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

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

ACQUISITION OF ADDITIONAL ACREAGE

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

SALT WASH PROJECT

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

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

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

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

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

U.S. DEPARTMENT OF ENERGY FUNDING

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

IMPAIRMENT

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

14. PROPERTY AND EQUIPMENT

	Group				Company		
	Oil and gas properties US$'000	Office equipment US$'000	Right-of-use assets US$'000	Total US$'000	Office equipment US$'000	Right-of-use assets US$'000	Total US$'00
Cost							
At 1 January 2022	12,902	27	-	12,929	27	-	27
Business combination	40,199	-	-	40,199	-	-	-
Acquisitions	3,362	-	-	3,362	-	-	-
Additions	9,757	-	-	9,757	-	-	-
Exchange differences	-	(3)	-	(3)	(3)	-	(3)
At 1 January 2023	66,220	24	-	66,244	24	-	24
Additions	10,468	-	77	10,545	-	77	77
Disposals	(2,792)	-	-	(2,792)	-	-	-
Decommissioning - change in estimates	463	-	-	463	-	-	-
Exchange differences	-	1	-	1	1	-	1
At 31 December 2023	74,359	25	77	74,461	25	77	102
Accumulated depreciation							
At 1 January 2022	1,755	18	-	1,773	18	-	18
Charge for the year	12,666	2	-	12,668	2	-	2
Exchange differences	-	(2)	-	(2)	(2)	-	(2)
At 1 January 2023	14,421	18	-	14,439	18	-	18
Charge for the year	9,607	2	21	9,630	2	21	23
Disposals	(449)	-	-	(449)	-	-	-
Exchange differences	-	1	-	1	1	-	1
At 31 December 2023	23,579	21	21	23,621	21	21	42
Carrying amount							
At 31 December 2023	50,780	4	56	50,840	4	56	60
At 31 December 2022	51,799	6	-	51,805	6	-	6
At 1 January 2022	11,147	9	-	11,156	9	-	9

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

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

IMPAIRMENT

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

15. DERIVATIVE CONTRACTS

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

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

Swap	[illegible]	WTI NYMEX	[illegible]	1 August 2023 to 31 August 2023	Settled
Swap	4,000	WTI NYMEX	78.72	1 September 2023 to 30 September 2023	Settled
Swap	4,000	WTI NYMEX	78.05	1 October 2023 to 31 October 2023	Settled
Swap	3,000	WTI NYMEX	77.40	1 November 2023 to 30 November 2023	Settled
Swap	3,000	WTI NYMEX	76.74	1 December 2023 to 31 December 2023	Settled

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

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

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

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

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

The recognised gain on derivative contracts was as follows:

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

20. BORROWINGS

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

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

REMAINING CONTRACTUAL MATURITY ANALYSIS

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

	Group 2023	2022

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

FIRST INTERNATIONAL BANK & TRUST ("FIBT")

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

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

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

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

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

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

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

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

SGRI

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

On 13 October 2023, the revolving credit facility was increased to US$8.6 million and the repayment term was extended to 19 March 2024.

Interest and fees have been added to the loan and are due for repayment on the same terms as the facility.

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

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

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

PROMISSORY NOTE

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

The movement in total borrowings during the year was:

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

END

FR FRMMTMTMTMRI