



ZETAPETROLEUMPLC

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

CONTENTS

1	GENERAL INFORMATION
2	CHAIRMAN'S STATEMENT
4	DIRECTORS AND KEY MANAGEMENT
5	REPORT OF THE DIRECTORS
13	STATEMENT OF DIRECTOR'S RESPONSIBILITIES
14	INDEPENDENT AUDITOR'S REPORT
16	CONSOLIDATED INCOME STATEMENT
17	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
18	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
19	COMPANY STATEMENT OF FINANCIAL POSITION
20	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
22	COMPANY STATEMENT OF CHANGES IN EQUITY
24	CONSOLIDATED STATEMENT OF CASHFLOWS
25	COMPANY STATEMENT OF CASHFLOWS
26	NOTES TO THE FINANCIAL STATEMENTS
59	CORPORATE GOVERNANCE STATEMENT
67	ASX ADDITIONAL INFORMATION

GENERAL INFORMATION

DIRECTORS

T W Osborne
Non-executive Chairman

S P West
Managing Director

P Crookall
Chief Operating Officer

C Manifold
Non-Executive Director

P Lewis
Non-Executive Director

COMPANY SECRETARY

B Hodges

LOCAL AGENT – AUSTRALIA

P Lewis

REGISTERED OFFICE – UNITED KINGDOM

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London
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ph: +61 (0)8 6102 0312

AUDITOR

BDO LLP
55 Baker Street
London
W1U 7EU
United Kingdom

STOCK EXCHANGE LISTING

Australian Securities Exchange
Share code: ZTA

SHARE REGISTRARS

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PLACE OF INCORPORATION

England

COMPANY NUMBER

5560854

WEBSITE

www.zetapetroleum.com

CHAIRMAN'S STATEMENT

During the period under review we have made further strides towards delivering on our strategy to build Zeta into a cash generative asset backed oil and gas company, with a multi-project, multi-stage portfolio of hydrocarbon assets including production, development and exploration.

Since our listing on the Australian Securities Exchange ('ASX') in May 2012 we have successfully delivered on a number of milestones we set out to achieve: acquiring a producing asset in Romania, securing a Gazprom subsidiary as a joint venture partner for the Jimbolia concession, and drilling a well at our 100% owned Bobocu concession. We achieved these three objectives and more, by the beginning of the last quarter of the year well ahead of schedule and, following the spudding of the Jimbolia well on the last day of the year, we had fulfilled all commitments on our current licences.

Shortly after our admission to the ASX we acquired a 50% working interest in the Suceava concession in Romania, which covers an area of 2,403 sq km and includes the Climauti gas field which currently produces approximately 15,500m³/day from one well. The production from this field, although modest, generates the Company c.US\$25,000 net revenues per month which covers our corporate overheads in Romania. The acquisition immediately saw Zeta become just one of a limited number of companies currently producing hydrocarbons in Romania and at the same time provides the Company with solid asset backing upon which we can build.

Importantly, Suceava also holds a number of leads and prospects offering significant exploration upside with shallow conventional gas potential of up to 80 billion cubic feet (unrisked). In November 2012, Raffles Energy, the operator and owner of the remaining 50% of the concession, spudded the Musenita-1 exploration well. The shallow well was drilled to 600m and, although reservoir sections were encountered as per our expectations, no commercial gas flowed to surface on testing.

Post period end, in January 2013, we announced the decision to commence a feasibility study at Suceava in order to bring two existing gas discovery wells on the concession into production in 2013. Both of these wells previously flowed commercial gas in testing and low cost options are being considered with potential for rapid payback. I look forward to providing updates on our progress in due course. In the meantime, drilling is due to commence on the Chevron owned Barlad concession in H2 2013, which lies contiguous to Suceava, needless to say we will be interested to see the results of this drilling campaign.

In July 2012 we spudded the Bobocu 310 well on the previously producing (1977-1995) Bobocu Gas Field. During drilling, multiple gas shows were encountered and the wireline logs indicated gas bearing reservoir; however, initial testing of the well did not yield commercial gas and it was decided to suspend the well. The newly acquired well data has been incorporated into our geological model of the field in order to unlock the potential value of the Bobocu gas field which currently has a contingent gas resource of 44.36Bcf and Pmean prospective resources of 14.09Bcf. It is the Company's intention, subject to finance, to sidetrack a well from the Bobocu 310 well location targeting an up-dip area approximately 500 metres south of the existing well location.

Although the initial testing of the Bobocu 310 well did not yield commercial gas, the intention remains to bring this field back into production by initially drilling a sidetrack well and then new development wells. The Company believes that the Bobocu field remains prospective and will pursue suitable avenues from which to advance its exploitation. With 100% control of the Bobocu field, there are various development options available.

CHAIRMAN'S STATEMENT *continued*

The farm-out agreement for our Jimbolia concession was a major milestone completed during the period. Not only have we farmed out a 51% working interest in Jimbolia to a subsidiary of Gazprom, NIS Gazrom Neft, but in return the cost of the Jimbolia-100 exploration well will be 100% funded by our new partner. The well, which was spud on 31 December 2012, was targeting the Jimbolia Veche oil discovery which has two hydrocarbon bearing intervals with a current Pmean contingent resource of 1.72MMbbls.

Looking ahead, 2013 promises to be another active year for the Company as we look, subject to available finance, rapidly to expand production and reserves through the development of our existing portfolio, as well as via acquisition and, in the process, build a leading Eastern European oil and gas company.

I would like to take this opportunity to thank the whole Zeta team, both our board of directors and the team on the ground. Our progress to date could not have been completed without their hard work. Although the period has seen us lose Michael Scott as a non-executive director and we wish him well in his new venture with Chevron, we were also delighted to welcome Cameron Manifold in his place. Cameron's extensive experience in the oil and gas industry will be hugely beneficial as we grow our Company.

Finally, I would like to thank our shareholders for their continued support and the interest they have shown in the Company. I believe we have a solid foundation upon which we can return substantial value for shareholders through the monetisation of our existing portfolio and look forward to providing the market with updates in our progress in due course.

Chairman
27 March 2013

DIRECTORS AND KEY MANAGEMENT

BOARD OF DIRECTORS

Timothy Osborne

Non-Executive Chairman

Mr Osborne is a solicitor and has been Senior Partner of Wiggin Osborne Fullerlove since 2003. Mr Osborne is a director of GML Limited, a diversified financial holding company which, at one time, owned strategic stakes in a number of Russian companies, including a majority shareholding in Yukos Oil Company (previously Russia's largest oil company).

Stephen West

Managing Director

Mr West is a founder of Zeta Petroleum plc and a Chartered Accountant with over 20 years of financial and corporate experience ranging from public practice, investment banking, oil & gas and mining. Mr West holds a Bachelor of Commerce (Double Major, Accounting and Business Law) from Curtin University of Technology. Previous appointments include senior positions at Duesburys Chartered Accountants, PriceWaterhouseCoopers, Barclays Capital and Regal Petroleum plc. Mr West is currently a non-executive director of ASX listed Apollo Consolidated Limited.

Philip Crookall

Chief Operating Officer

Mr Crookall is a petrophysicist with over 24 years industry experience with both independent oil companies and consultancy groups including Valiant Petroleum plc, Hamilton Brothers Oil & Gas Ltd, Ultramar Ltd, LASMO plc, Hardy Oil & Gas plc, Scott Pickford Ltd and Paradigm Geophysical Ltd.

Cameron Manifold

Non-Executive Director

Mr Manifold is a qualified engineer with a long and distinguished career in the oil and gas industry, with extensive experience in innovative and marginal field development. He is the founder and CEO of AWT International and currently serves as Chairman of Whicher Range Energy Pty Ltd.

Piers Lewis

Non-Executive Director

Mr Lewis has over 15 years global corporate experience and is currently a Director and Company Secretary of ASX listed Talga Gold Limited and Stratos Resources Limited, and Company Secretary for Australia Minerals & Mining Group Limited. A qualified Chartered Accountant with Deloitte, he held previous senior management roles with Credit Suisse, Mizuho International and NAB Capital.

KEY MANAGEMENT

Bogdan Popescu

Romanian Country Manager

Mr Popescu is an oil industry specialist and NAMR certified expert with extensive international experience. His former appointments include senior executive positions at the Rompetrol Group and Millennium Group of Companies, and various positions at Petroconsultants SA/IHS Energy and Earth Sciences Researcher at the Institute of Geology and Geophysics. Mr Popescu is the Past President of the Petroleum Exploration & Production Managers Forum in Romania.

Helen Bone

Technical Manager

Ms Bone is a qualified Geologist with over 11 years experience. Ms Bone has covered a wide range of geoscientific disciplines and has worked closely with engineers to integrate results and to create a full subsurface understanding of assets. Ms Bone's previous appointments include positions with Troy-Ikoda, Regal Petroleum plc and Granby Oil & Gas.

Jimmy Micu

Senior Geologist

Mr Micu is an NAMR certified Geologist with over 40 years experience. Mr Micu's career has mainly been spent in Romania with the Geological Survey, Faculty of Geology and Geophysics and with Prospectiuni. He was a Senior Researcher, Associate Professor and the Head of Research in these organisations.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012

The directors present their report together with the audited financial statements for the year ended 31 December 2012.

RESULTS AND DIVIDENDS

The consolidated income statement is set out on page 16 and shows a loss for the year amounting to £5,068,000 (2011 – loss of £1,050,000). The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS

ROMANIA OPERATIONS

(I) BOBOCU CONCESSION (ZETA 100%)

During the first quarter of 2012 the Company's technical team focused on planning and permitting for the Bobocu 310 well, the Company's first well on the Bobocu gas field.

The Bobocu 310 well was spud on 23 July 2012 and drilled to target depth on 15 August 2012, at which time wireline logs were run in the hole to identify and test reservoir properties. Initial testing of the well did not yield commercial gas, despite encountering multiple gas shows whilst drilling and the wireline logs indicating gas bearing reservoirs. The downhole well logs and pressure data from the Bobocu 310 well were subsequently analysed and evaluated, and the results were incorporated into the field's existing geological model, which has led to an improved geological model.

Further to the extensive evaluation of the Bobocu 310 well results and the acquired logs, it is the Company's intention, subject to finance, to sidetrack a well from the existing Bobocu 310 well location targeting an up-dip area approximately 500 metres south of the existing well location.

Although the initial testing of the Bobocu 310 well did not yield commercial gas, the intention remains to bring this field back into production by initially drilling a sidetrack well and then new development wells. The Company believes that the Bobocu field remains prospective and will pursue suitable avenues from which to advance its exploitation. With 100% control of the Bobocu field, there are various development options available.

(II) JIMBOLIA CONCESSION (ZETA 39%; NIS PETROL SRL 51%; ARMAX GAZ SA 10%)

On 31 August 2012 the Company entered into an agreement with NIS Gazprom Neft to farm-out a 51% interest in the Jimbolia concession in return for NIS Gazprom Neft funding 100% of the cost of the Jimbolia -100 exploration well to be drilled on the Jimbolia concession. Under the terms of the farm-out agreement NIS Gazprom Neft was appointed operator on the concession. The conditions precedent were satisfied on 18 October 2012 and the farm-out was completed on this date.

Contemporaneously with entering into the farmout agreement with NIS Gazprom Neft, the Company entered into an agreement with Armax Gaz S.A., a previous joint venture partner on the Jimbolia concession, to settle an ongoing dispute ("Settlement Agreement"). Under the terms of the Settlement Agreement the Company issued Armax Gaz S.A. with 2,600,000 new ordinary shares in Zeta in return for Armax Gaz S.A. withdrawing its claim for damages against the Company. In addition, Armax Gaz S.A. retained a 10% working interest in the Jimbolia concession.

The Jimbolia-100 appraisal well was spud on the Jimbolia concession (39% Zeta, 51% NIS Gazprom Neft, 10% Armax Gaz SA) by NIS Gazprom Neft on 31 December 2012. The well is targeting the Jimbolia Veche discovery, which has two hydrocarbon bearing intervals and a current Pmean

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012

contingent oil resource of 1.72MMbbls. Previous drilling by Petrom in 1983 identified the Pliocene VIII as an oil reservoir with a gas cap. This was penetrated by two wells, the Jimbolia-1, which flowed at rates up to 120 bbls/day and tested at a sustained rate of 50 bbls/day for 6 days and Jimbolia-6, in which tests indicate an oil leg with an oil density of 780kg/m³ (50° API).

(iii) SUCEAVA CONCESSION (ZETA 50%; RAFFLES ENERGY SRL 50%)

On 31 May 2012 the Company signed a sale and purchase agreement to acquire 100% of the issued capital of Regal Petroleum Romania SRL, a wholly owned subsidiary of AIM listed Regal Petroleum plc, for a cash consideration of US\$650,000. The terms under the sale and purchase agreement were satisfied on 31 July 2012 and the acquisition completed on this date. The sole asset of Regal Petroleum Romania SRL is a 50% working interest in the Suceava concession in Romania.

The Suceava concession includes the Climauti gas field which is currently producing approximately 15,500m³/day from Sarmatian reservoirs at around 460 metres depth, with the production being sold to Wintershall, the largest crude oil and natural gas producer in Germany. This modest existing production is generating approximately US\$25,000 per month net revenue to Zeta.

Raffles Energy SRL, the Operator and a 50% holder of the Suceava gas concession, commenced drilling the Musenita-1 exploration well on the producing Suceava gas concession on 13 November 2012. The Musenita-1 well was drilled to a depth of approximately 600 metres on 22 November 2012. Reservoir sections were encountered as expected and three tests were subsequently performed on the well; however, no commercial gas flowed to surface and as a result, Musenita was plugged and abandoned by the Operator. The drilling of the Musenita-1 exploration well fulfilled the well commitment on the Suceava concession.

Zeta and Raffles Energy SRL have agreed to commence a feasibility study on how best to bring two existing gas discovery wells into production in 2013, and in the process, significantly increase current production from the concession. Both wells were successfully drilled by previous owners of the concession and flowed commercial rates of gas in tests: the SE-1 drilled in 2005, tested at a stable rate of 25,500 m³/day (peak rate in excess of 33,000 m³/day) and the Dornesti Sud-1, which was drilled in 2007, tested at 24,000 m³/day.

(IV) PROSPECTING PERMITS (ZETA 100%)

Zeta holds in excess of 6,000 sq km of non-exclusive prospecting permits in the eastern Moldavian region of Romania, which is a known hydrocarbon-prone area. The prospecting permits give the Company the right to data in relation to the prospecting areas and also the right, but not the obligation, to request that part of a prospecting area is placed into a bidding round in which the Company will have the opportunity to bid for a licence over the selected prospecting area. During the year Zeta submitted to the National Agency for Minerals and Resources (Romania) an evaluation report and letter of intent to participate in the next licencing round which is expected to open in 2013.

(V) OTHER OPPORTUNITIES

In line with its strategy, the Company continues to assess other onshore oil and gas opportunities within Romania and Eastern Europe that may complement and enhance the current portfolio. With an experienced team and an exciting platform of assets, the Company believes that it is ideally positioned to capitalise on the regional opportunities. This is particularly relevant with the increasing issues of energy security translating into countries being keen to develop their own energy sources.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012

CORPORATE AFFAIRS

On 21 May 2012 the Company successfully completed an oversubscribed Initial Public Offering on the Australian Securities Exchange (ASX) raising AUD\$8.35 million (£5.19 million) through the issue of 41,752,240 CHESS Depository Interests (CDI) at 20 AUD cents with one free attaching option exercisable at 20 cents. On 23 May 2012 the CDI securities began trading on the ASX under the code ZTA.

On 1 June 2012 the Company announced the appointment of Mr Cameron Manifold as a Non-Executive Director and the resignation of Mr Michael Scott as a Non-Executive Director. Mr Manifold is a qualified engineer with a long and distinguished career in the oil and gas industry, with extensive experience in innovative and marginal field development. He has specific expertise in complex well design and intervention technologies and is a recognised industry leader in well integrity management systems. Mr Scott resigned as a Non-Executive Director due to taking up full time employment with a major oil and gas company.

On 18 September 2012 a prospectus was lodged with the Australian Securities Exchange giving shareholders the opportunity to participate in a pro-rata non-renounceable rights issue of share options on a one-for-four basis and a price payable of AU\$0.01 per share option. On 24 October 2012 the offer closed with firm commitments received for 15,970,250 new share options raising AU\$159,702.50 (before expenses). All directors of the Company took up their full entitlements for the share option issue.

As at 27 March 2013 the Company maintained a cash position of AU\$465,000 as well as income from its producing Romanian gas asset.

DIRECTORS' MEETINGS

The number of meetings attended by each of the Directors of the Company during the financial year was:

	Number held and entitled to attend	Number attended
Timothy Osborne	7	7
Stephen West	7	7
Philip Crookall	7	7
Cameron Manifold	6	5
Piers Lewis	4	4
Michael Scott	1	1

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012

PRINCIPAL RISKS AND UNCERTAINTIES

As an exploration, development and production company in the oil and gas industry the Company operates in an inherently risky sector. Oil and gas prices are subject to volatile price changes from a variety of factors including international economic and political trends, expectations of inflation, global and regional demand, currency exchange fluctuations, interest rates and global or regional consumption patterns. These factors are beyond the control of the Group and may affect the marketability of oil and gas discovered. In order to mitigate these risks all projects will be subject to sufficient feasibility analysis to ensure a reasonable level of confidence appropriate to the circumstances under consideration.

Specific risks that that the Company faces are:

- Discovery Risk:** Risk that no economically producible oil or gas will be discovered or found to be present in the Group's exploration licence areas.
- The Company attempts to mitigate this risk by undertaking sufficient due diligence where warranted to help ensure opportunities are subjected to proper evaluation.
- Capital Intensive Business:** The drilling of wells to discover whether there is oil or gas is a highly capital intensive business and will require the Company to raise capital in the future.
- The directors regularly review cash flow requirements to ensure the Company can meet financial obligations as and when they fall due.
- Natural Gas and Oil Price:** The Company's asset value and economic viability of its exploration projects depend on the price of natural gas and oil. The Company's ability to raise funds in the future is therefore likely to be sensitive to the price of natural gas and oil.
- Environmental Regulations:** The exploration, development and production of natural gas and oil can be hazardous to the environment. The Projects are subject to Romanian laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all exploration projects, the Projects may have a variety of environmental impacts should development proceed. The Company intends to conduct its activities in an environmentally responsible manner. However, the Company could be subject to liability due to risks inherent to its activities. The Company may incur substantial costs for environmental rehabilitation, damage control and losses by third parties resulting from its operations.
- Government Regulations:** The security of tenure over Company's assets and revenue streams may be adversely affected by change in government regulations in Romania.
- The Company attempts to mitigate this risk by maintaining close working relationships with government agencies, keeping abreast of any pending or potential change in regulations and engaging the services of appropriately qualified and experienced legal counsel as and when required.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012

Staffing and Key Personnel: The Company's ability to execute its business plan is dependent on the quality of its directors and key personnel. The Company ensures that its directors and key personnel collectively possess a diverse and extensively experienced skill set and seeks to retain its key staff by offering remuneration packages at competitive market place rates.

POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in Note 29 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's issued share capital as at 31 December 2012 are set out in Note 19 to the consolidated financial statements.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with. The average creditor payment period for the year ended 31 December 2012 for the Company was 9.42 days (2011: 39.16 days).

GOING CONCERN

The financial statements have been prepared on a going concern basis. As at 31 December 2012 the Group had available funds totalling £559,000, a net current asset position of £1,268,000 and shareholder's funds of £1,893,000.

On 21 May 2012 the Company successfully completed an oversubscribed Initial Public Offering on the Australian Securities Exchange (ASX) raising AU\$8.35 million through the issue of 41,752,240 CHES Depository Interests (CDI) at 20 AUD cents with one free attaching option exercisable at 20 cents. On 23 May 2012 the CDI securities began trading on the ASX under the code ZTA.

The Group is awaiting the results of the Jimbolia 100 well before determining its fundraising strategy. Should the well not be successful management have identified a number of cost savings such that working capital can be funded from existing resources for a period of not less than 12 months. Management will also investigate low cost alternatives for the development of its asset portfolio.

The directors have a reasonable expectation that the Group has adequate funds and continue to adopt the going concern basis in preparing the Financial Statements.

FINANCIAL INSTRUMENTS

The Group's and Company's principal financial instruments comprise cash and cash equivalents, short-term deposits and borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments which mainly comprise trade payables which arise directly from its operations (refer to note 25).

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year were as follows:

	Date appointed	Date resigned
P Lewis	04 Sep 2012	
C Manifold	30 May 2012	
P Crookall	24 Sep 2010	-
T W Osborne	31 Mar 2006	-
S P West	12 Sep 2005	-
M Scott	18 Oct 2011	24 May 2012

The directors who held office at 31 December 2012 had the following interests in the ordinary shares of the Company according to the register of directors' interests:

	Class of Share	Interest at start of year	Interest at end of year
P Lewis ¹	Ordinary	-	50,000
C Manifold ²	Ordinary	-	112,500
P Crookall ³	Ordinary	287,328	437,328
T W Osborne	Ordinary	-	-
S P West ⁴	Ordinary	7,684,015	8,186,515

¹ P Lewis acquired 50,000 shares on 4 September 2012. P Lewis' shares are held by Cranley Consulting ATF The Cranley Consulting Trust in which P Lewis has an indirect beneficial interest.

² C Manifold acquired 112,500 shares on 14 June 2012. C Manifold's shares are held by the Manifold Family Superannuation Fund in which C Manifold has an indirect beneficial interest.

³ P Crookall acquired 150,000 shares on 13 January 2012.

⁴ S P West's shares are held by Cresthaven Investments Pty Ltd, a company in which S P West has an indirect beneficial interest. Cresthaven Investments Pty Ltd acquired 400,000 shares on 13 January 2013 and 102,500 shares on 13 June 2012.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012

DIRECTORS AND DIRECTORS' INTERESTS *continued*

According to the register of directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

Date of grant	Number of options at start of year	Options granted or acquired during year	Options cancelled during year	Number of options at end of year
P CROOKALL				
11 Jan 2012	-	3,000,000	-	3,000,000
12 Nov 2012	-	109,332	-	109,332
		3,109,332		3,109,332
P LEWIS¹				
12 Nov 2012	-	12,500	-	12,500
C MANIFOLD²				
12 Nov 2012	-	28,125	-	28,125
T OSBORNE				
11 Jan 2012	-	1,000,000	-	1,000,000
S WEST³				
11 Jan 2012	-	5,000,000	-	5,000,000
12 Nov 2012	-	2,046,629	-	2,046,629
	-	7,046,629	-	7,046,629

¹ P Lewis' options are held by Cranley Consulting ATF The Cranley Consulting Trust, an entity in which P Lewis has an indirect beneficial interest.

² C Manifold's options are held by Manifold Family Superannuation Fund, an entity in which C Manifold has an indirect beneficial interest.

³ S P West's options are held in the name of Cresthaven Investments Pty Ltd, a company in which S P West has an indirect beneficial interest.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2012

SUBSTANTIAL SHAREHOLDERS

The following parties had interests of greater than 3% of the issued share capital of the Company at 31 December 2012:

	Number of shares	% of issued ordinary share capital
GM Investment & Co Limited	43,385,139	32.53
D Scanlen	10,000,000	7.50
S Pagel	9,094,375	6.82
Cresthaven Investments Pty Ltd ⁴	8,186,515	6.14
Banque Heritage	7,000,000	5.25
Gradient Capital	5,000,000	3.75

KEY PERFORMANCE INDICATORS

The Company during 2012 continued to meet all work requirements on existing licences, acquired additional gas assets and also ensured that the Company and Group maintained enough cash reserves to finance operational and working capital commitments through the issue of new ordinary shares in the Company.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group and Company made no political contributions or donations to United Kingdom charities during the year.

By order of the Board



S P West
Director
27 March 2013

1 Berkeley Street
London, W1J 8DJ
United Kingdom

⁴ Cresthaven Investments Pty Ltd is a company in which S P West has an indirect beneficial interest.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the Australian Securities Exchange.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

WEBSITE PUBLICATION

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made inquiries of fellow directors and of the Group's and Company's auditors, each of these directors confirm that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's and Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

By order of the Board



S P West

Director

27 March 2013

1 Berkeley Street
London, W1J 8DJ
United Kingdom

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZETA PETROLEUM PLC

We have audited the financial statements of Zeta Petroleum plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity and the consolidated and company cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZETA PETROLEUM PLC

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Scott Knight (*senior statutory auditor*)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
27 March 2013

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 2012

	Note	2012 £'000	2011 £'000
Revenue		139	-
Cost of goods sold		<u>(82)</u>	<u>-</u>
Gross Profit		57	-
Exploration and evaluation expenses		(2,528)	(109)
Administrative expenses	23	(2,724)	(1,542)
Other income		<u>94</u>	<u>-</u>
Operating loss		(5,101)	(1,651)
Changes of fair value of the financial liability		-	794
Interest income		48	-
Financing costs	4	<u>(15)</u>	<u>(193)</u>
Loss before Taxation		(5,068)	(1,050)
Income tax	8	-	-
		<u> </u>	<u> </u>
Loss for the year attributable to the equity holders		<u>(5,068)</u>	<u>(1,050)</u>
Loss per ordinary share – basic and diluted	9	<u>(4.66p)</u>	<u>(1.88p)</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2012**

	Note	2012 £'000	2011 £'000
Loss for the year		(5,068)	(1,050)
Other comprehensive income:			
Exchange differences on translation of foreign operations		124	132
Total comprehensive loss for the year		(4,944)	(918)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012**

	Note	2012 £'000	2011 £'000
ASSETS			
Non-current assets			
Intangible assets	10	664	379
Property, plant and equipment	11	546	9
		<u>1,210</u>	<u>388</u>
Current assets			
Trade and other receivables	13	709	778
Cash and cash equivalents	14	559	238
		<u>1,268</u>	<u>1,016</u>
TOTAL ASSETS		<u>2,478</u>	<u>1,404</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	19	133	71
Share premium	20	6,832	1,773
Share based payments reserve	21	1,196	-
Share options reserve	22	2,096	-
Foreign currency translation reserve		387	263
Retained losses		(8,751)	(3,683)
TOTAL EQUITY		<u>1,893</u>	<u>(1,576)</u>
Non-current liabilities			
Provisions	15	1	78
		<u>1</u>	<u>78</u>
Current liabilities			
Trade and other payables	16	565	367
Other financial liabilities	17	19	-
Interest-bearing loans and borrowings	18	-	2,507
Financial liability	18	-	28
		<u>584</u>	<u>2,902</u>
TOTAL LIABILITIES		<u>585</u>	<u>2,980</u>
TOTAL EQUITY AND LIABILITIES		<u>2,478</u>	<u>1,404</u>

Stephen West, Director
27 March 2013

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	2	3
Investment in subsidiary	12	596	1
Amounts receivable from subsidiary undertaking		<u>1,313</u>	<u>4,541</u>
		<u>1,911</u>	<u>4,545</u>
Current assets			
Trade receivables	13	49	302
Cash and cash equivalents	14	<u>518</u>	<u>233</u>
		<u>567</u>	<u>535</u>
TOTAL ASSETS		<u>2,478</u>	<u>5,080</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	19	133	71
Share premium	20	6,832	1,773
Share based payments reserve	21	1,196	-
Share options reserve	22	2,096	-
Revaluation reserve		(41)	-
Retained profits/(losses)		<u>(7,846)</u>	<u>343</u>
TOTAL EQUITY		<u>2,370</u>	<u>2,187</u>
Non-current liabilities			
Provisions	15	<u>-</u>	<u>78</u>
		-	78
Current liabilities			
Trade and other payables	16	108	280
Interest-bearing loans and borrowings	18	-	2,507
Financial liability	18	<u>-</u>	<u>28</u>
		<u>108</u>	<u>2,815</u>
TOTAL LIABILITIES		<u>108</u>	<u>2,893</u>
TOTAL EQUITY AND LIABILITIES		<u>2,478</u>	<u>5,080</u>



Stephen West, Director
27 March 2013



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2012	71	1,773	-	-	263	(3,683)	(1,576)
Loss for the year	-	-	-	-	-	(5,068)	(5,068)
Other comprehensive income	-	-	-	-	124	-	124
Total comprehensive income	-	-	-	-	124	(5,068)	(4,944)
Issue of ordinary shares	42	3,154	-	-	-	-	3,196
Issue of options at IPO	-	-	-	1,993	-	-	1,993
Issue of loyalty options	-	-	-	103	-	-	103
Issue of ordinary shares on conversion of loan note	18	2,371	-	-	-	-	2,389
Issue of ordinary shares from dispute settlement	2	184	-	-	-	-	186
Transaction costs	-	(650)	168	-	-	-	(482)
Options issued to management	-	-	1,028	-	-	-	1,028
As at 31 December 2012	133	6,832	1,196	2,096	387	(8,751)	1,893

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2011	3	7,971	1,054	-	131	(11,571)	(2,412)
Loss for the year	-	-	-	-	-	(1,050)	(1,050)
Other comprehensive income	-	-	-	-	132	-	132
Total comprehensive income	-	-	-	-	132	(1,050)	(918)
Issue of ordinary shares	14	1,637	-	-	-	-	1,651
Share based payments	-	-	(14)	-	-	158	144
Issue of bonus shares to existing shareholders	52	(52)	-	-	-	-	-
Transfer from share premium reserve	-	(8,000)	-	-	-	8,000	-
Cancellation of share options	2	217	(1,040)	-	-	780	(41)
As at 31 December 2011	71	1,773	-	-	263	(3,683)	(1,576)



COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2012	71	1,773	-	-	-	343	2,187
Loss for the year	-	-	-	-	-	(8,189)	(8,189)
Other comprehensive income	-	-	-	-	(41)	-	(41)
Total comprehensive income	-	-	-	-	(41)	(8,189)	(8,230)
Issue of ordinary shares	42	3,154	-	-	-	-	3,196
Issue of options at IPO	-	-	-	1,993	-	-	1,993
Issue of loyalty options	-	-	-	103	-	-	103
Issue of ordinary shares on conversion of loan note	18	2,371	-	-	-	-	2,389
Issue of ordinary shares from dispute settlement	2	184	-	-	-	-	186
Transaction costs	-	(650)	168	-	-	-	(482)
Options issued to management	-	-	1,028	-	-	-	1,028
As at 31 December 2012	133	6,832	1,196	2,096	(41)	(7,846)	2,370

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2011	3	7,971	1,054	-	-	(8,064)	964
Loss for the year	-	-	-	-	-	(531)	(531)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	(531)	(531)
Issue of ordinary shares	14	1,637	-	-	-	-	1,651
Share based payments	-	-	(14)	-	-	158	144
Issue of bonus shares to existing shareholders	52	(52)	-	-	-	-	-
Transfer from share premium reserve	-	(8,000)	-	-	-	8,000	-
Cancellation of share options	2	217	(1,040)	-	-	780	(41)
As at 31 December 2011	71	1,773	-	-	-	343	2,187



CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
OPERATING ACTIVITIES			
Loss after tax		<u>(5,068)</u>	<u>(1,050)</u>
Adjustment to reconcile loss to net cash outflow from operating activities			
Interest on income tax provision		-	3
Depreciation and depletion	11	52	4
Amortisation	10	27	25
Decommissioning		1	-
Borrowing costs amortised		-	25
Share based payments	21	1,028	143
Interest on loans		10	116
Change in fair value of the financial instrument	25	-	(794)
Gain on debt settlement		(39)	-
Interest income		(48)	-
Working capital adjustments:			
Increase in receivables		(245)	(632)
Increase in trade and other payables		139	278
Decrease in provisions		(80)	(45)
Net cash outflow from operating activities		<u>(4,223)</u>	<u>(1,927)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	(526)	(6)
Interest income		48	-
Farm-in proceeds		156	-
Cash acquired on acquisition		7	-
Net cash outflow from investing activities		<u>(315)</u>	<u>(6)</u>
FINANCING ACTIVITIES			
Payment to option holders on cancellation of share options		-	(41)
Proceeds from share issue net of costs		4,702	1,543
Proceeds from loyalty options issue	22	103	-
Finance lease payments		(8)	-
Net cash inflow from financing activities		<u>4,797</u>	<u>1,502</u>
Net Increase/(decrease) in cash and cash equivalents		259	(431)
Cash and cash equivalents at the beginning of the year	14	238	518
Effect of foreign exchange rates		62	151
Cash and cash equivalents at the end of the year	14	<u>559</u>	<u>238</u>



COMPANY STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 £'000	2011 £'000
OPERATING ACTIVITIES			
Loss after tax		<u>(8,189)</u>	<u>(531)</u>
Adjustment to reconcile loss to net cash outflow from operating activities			
Interest on income tax provision		-	3
Depreciation	11	2	1
Borrowing costs amortised		-	74
Share based payments	21	1,028	143
Interest on loans		8	116
Expenses recharged		(60)	(144)
Impairment of investment in subsidiary		6,189	-
Change in fair value of the financial instrument	25	-	(794)
Gain on debt settlement		(39)	-
Foreign exchange (gains)/losses		(16)	123
Interest income		(48)	-
Working capital adjustments:			
Decrease/(increase) in receivables		252	(174)
Increase/(decrease) in trade and other payables		(229)	191
Increase/(decrease) in provisions		(80)	3
Net cash outflow from operating activities		<u>(1,181)</u>	<u>(989)</u>
INVESTING ACTIVITIES			
Interest income		48	-
Purchase of property, plant and equipment	11	(1)	(4)
Investment in subsidiaries		(595)	-
Repayment of loans		(2,791)	(684)
Net cash outflow from investing activities		<u>(3,339)</u>	<u>(688)</u>
FINANCING ACTIVITIES			
Payment to option holders on cancellation of share options		-	(41)
Proceeds from share issue		4,702	1,543
Proceeds from loyalty options issue	22	103	-
Net cash inflow from financing activities		<u>4,805</u>	<u>1,502</u>
Net Increase/(decrease) in cash and cash equivalents		285	(175)
Cash and cash equivalents at the beginning of the year	14	<u>233</u>	<u>408</u>
Cash and cash equivalents at the end of the year	14	<u>518</u>	<u>233</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. ACCOUNTING POLICIES

1.1 Authorisation of financial statements and statement of compliance with IFRS

Zeta Petroleum plc ("Zeta" or the "Company"), the ultimate parent of the Group, is a public company incorporated in England. The registered office and principal place of business is 1 Berkeley Street, London, W1J 8DJ. The principal activities of Zeta and its subsidiaries (the Group) are oil and gas exploration, development and production.

The Group's consolidated financial statements for the year ended 31 December 2012 were authorised for issue by the board of directors on 27 March 2013 and the balance sheets were signed on the Board's behalf by S P West.

The Group's consolidated financial statements and the Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The principal accounting policies adopted by the Group set out below are consistently applied to all the periods presented.

1.2 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates if different assumptions were used and different conditions existed.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required, and where if actual results were to differ, may materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the financial statements.

(a) Recoverability of oil and gas assets

Management considers factors such as progression of exploration activity, results from further exploration activities, licence expiration dates and management's intentions to develop every reporting period to determine whether any indication of impairment exists. Management assesses each asset or cash generating unit (CGU) every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil and gas prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for oil and gas assets is generally determined as the present value of estimated future cash flows arising from the continued use of the assets, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. The carrying values of the Group's licences as at 31 December 2012 were: Bobocu £312,156 (2011: £350,787); Jimbolia £347,214 (2011: £22,505), Padureni £5,012 (2011: £5,626) and Suceava £505,984, to which no impairment was recorded.

(b) Classification of financial instruments

The Group exercises judgment in classifying financial instruments in accordance with IAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

Classifications of financial instruments are further discussed in Note 25.

(c) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

1.3 Basis of preparation

The consolidated financial statements of Zeta have been prepared on a historical cost basis. The consolidated financial statements are presented in British pounds and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

1.4 New Accounting Standards and Interpretations in issue but not applied in the Financial Statements

The following standards and interpretations have an effective date after the date of these financial statements and have not been adopted early by the Group. This listing of standards and interpretations below are those that the Group reasonably expects may have an impact on disclosures, financial position and/or financial performance, when applied at a future date. The Group intends to adopt those standards (where applicable) when they become effective.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The amendment affects presentation only and therefore will have no impact on the Group’s financial position or performance. This became effective from 1 July 2012.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

The standard is currently effective for annual periods beginning on or after 1 January 2015.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets but will potentially have no impact on classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10, IFRS 11, and IFRS 12

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*. These standards, together with consequential amendments to IAS 27 *Separate Investments in Associates and Joint Ventures* and IAS 28 *Investments in Associates and Joint Ventures* are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation-Special Purpose Entities*.

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IAS 27 Separate Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, joint arrangements, and associates in separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, IAS 28 has been renamed and describes the application of the equity method to investments in joint ventures in addition to associates.

The Group is considering what impact the adoption of these new standards will have on its financial position and/or performance, disclosures and stated accounting policies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard is effective for annual periods beginning on or after 1 January 2013 and the Group is currently assessing the impact that this standard will have on its financial position and performance.

No new Accounting Standards were adopted during the period.

1.5 Going concern

The financial statements have been prepared on a going concern basis. As at 31 December 2012 the Group had available funds totalling £559 thousand, a net current asset position of £1,268 thousand and shareholder's funds of £1,893 thousand.

On 21 May 2012 the Company successfully completed an initial public offering ("IPO") of the Company's ordinary shares on the Australian Securities Exchange raising AU\$8.35 million.

The Group is awaiting the results of the Jimbolia 100 well before determining its fundraising strategy. Should the well not be successful management have identified a number of cost savings such that working capital can be funded from existing resources for a period of not less than 12 months. Management will also investigate low cost alternatives for the development of its asset portfolio.

The directors have a reasonable expectation that the Group has adequate funds and continue to adopt the going concern basis in preparing the Financial Statements.

1.6 Basis of consolidation

The consolidated financial statements comprise the financial statements of Zeta Petroleum plc ("Zeta") and its subsidiaries as at 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Zeta has used the exemption granted under s408 of the Companies Act 2006 that allows for the non-disclosure of the Income Statement of the parent company. The after tax loss attributable to Zeta for the year ended 31 December 2012 was £8,189,000 (2011: £531,000).

1.7 Jointly controlled operations

Jointly controlled operations are those in which the Group has certain contractual agreements with other participants to engage in joint activities that do not create an entity carrying on a trade or business on its own. The Group includes its share of assets, liabilities and cash flows in joint arrangements, measured in accordance with the terms of each arrangement, which is usually

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

pro rata to the Group's interest in the jointly controlled operations. The Group conducts its exploration, development and production activities jointly with other companies in this way.

1.8 Foreign currencies

The consolidated financial statements are presented in British pounds. During the year the Company changed its functional currency from British pounds to Australian dollars. The presentational currency will remain British pounds. Per IFRS 7, once the functional currency of an entity is determined, it should be used consistently, unless significant changes in economic facts, events and conditions indicate that the functional currency has changed.

The significant event in this case is that in May 2012 the Group listed on the Australian Stock Exchange. This involved raising a significant amount of capital in Australian dollars, and the Group has incurred and will continue to incur a significant amount of expenditure in Australian dollars. Management views Australia to be a significant source of future funding for the Group and holds the majority of its funds in Australian dollars.

The functional currency of the foreign subsidiaries Zeta Petroleum (Romania) SRL and Regal Petroleum Romania SRL is Romanian New Lei (RON). Zeta translates the subsidiary accounts into the presentational currency using the closing rate method for assets and liabilities, which are translated into British pounds at the rate of exchange prevailing at the balance sheet date, and the weighted average exchange rate for the period for income statement accounts. Exchange differences arising on the translation of net assets of the subsidiary are recognised in equity.

1.9 Intangible assets

Oil and gas exploration assets

Zeta follows the successful efforts based accounting policy for oil and gas assets. The successful efforts method means that only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis and amortised on a straight-line basis over the estimated period of exploration and, in the event that no future activity is planned, the remaining balance of licence acquisition costs is written off. Should a discovery be made, the amortisation would be suspended and the remaining costs aggregated with exploration expenditure on a field by field basis as properties awaiting approval for development. When development is approved, the relevant expenditure is transferred to tangible assets.

Exploration expenditure is expensed through the profit and loss statement and capitalised only in the event of commercially viable oil or gas reserves being discovered.

Following appraisal of successful exploration wells, if commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalised exploration costs are transferred into a single field cost centre within development/producing assets after testing for impairment. Where results of exploration drilling indicate the presence of hydrocarbons which

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within development/producing assets on a field by field basis.

Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing assets or replaces part of the existing development/producing asset. Any costs remaining associated with the part replaced are expensed.

Capital costs are amortised to write off the cost over the length of the licences. Amortisation begins from the date that the licences are ratified by the Romanian Government. The amortisation periods for the active licences are:

Bobocu 19/12/2007 – 19/12/2027

Jimbolia 25/03/2008 – 25/03/2028

Padureni 25/03/2008 – 25/03/2028

Software costs

Software costs are carried within intangible assets at cost, less any accumulated amortisation and accumulated impairment losses.

Amortisation is charged so as to write off the cost over the estimated useful lives (1 to 3 years) using the straight-line method.

1.10 Property, plant and equipment

Property, plant and equipment consist of development and production assets and other assets, and are carried at cost, less any accumulated depreciation and accumulated impairment losses.

Development and production assets are generally accumulated on a field by field basis and include the cost of developing the commercial reserves discovered and bringing them into production, together with exploration and evaluation expenditures, incurred in finding commercial reserves, transferred from intangible exploration and evaluation assets as outlined above, which constitutes a single cash generating unit. Depletion is provided for on a cash generating unit basis on a unit of production basis over the life of the proven commercial reserves taking into account the expected future costs to extract all such reserves.

An impairment test is performed on an individual cash generating unit whenever events and circumstances indicate that the carrying value of an asset may exceed its recoverable amount. The recoverable amount is assessed as the present value of the future cash flows expected to be derived from production of commercial reserves.

The cash generating unit basis is generally the field, however, oil and gas assets, including infrastructure assets may be accounted for on an aggregated basis where such assets are economically inter-dependent.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The cost of other assets includes purchase price and construction costs for qualifying assets and borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost, less estimated residual value, over their estimated useful lives using the straight-line method, for the following classes of assets: other equipment (1 to 5 years).

The estimated useful lives of property, plant and equipment and their residual values are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for retrospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income Statement for the relevant period.

1.11 Financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash. Cash equivalents are short-term with an original maturity of less than 3 months, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Other debtors are recognised and measured at nominal value.

Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset is impaired and will recognise the impairment loss immediately through the income statement.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

Interest bearing loans and borrowings

Borrowings are initially recognised at the fair value of consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1.12 Share-based payments

Share options

The Group issues equity-settled share-based payments to the directors and senior management ("Employee Share Options") and to its corporate finance advisers for assistance in raising private equity and to convertible loan providers ("Non-employee Share Options"). Equity-settled share-based payments are measured at fair value at the date of grant for Employee Share Options and the date of service for Non-employee Share Options. The fair value determined at the grant date or service date, as applicable, of the equity-settled share-based payments is expensed, with a corresponding credit to equity, on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each subsequent balance sheet date the Group calculates the estimated cumulative charge for each award having regard to any change in the number of options that are expected to vest and the expired portion of the vesting period. The change in this cumulative charge since the last balance sheet date is expensed with a corresponding credit being made to equity. Once an option vests, no further adjustment is made to the aggregate amount expensed. The fair value is calculated using the Black Scholes method for both Employee and Non-employee Share Options as management views the Black Scholes method as providing the most reliable measure of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability exercise restrictions and behavioural considerations. The market price used in the model is the issue price of Company shares at the last placement of shares immediately preceding the calculation date. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitation of the calculations used.

1.13 Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes 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 the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such 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 that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

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 profit will be available to allow all or

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

part of the asset to be recovered. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates and laws substantively enacted by the reporting date.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited outside profit or loss, in which case the deferred tax is also dealt with outside profit and loss.

Deferred tax assets and liabilities are offset when there exists a legal and enforceable right to offset and 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.

1.14 Revenue recognition

Sales of oil and gas products are recognised when the significant risks and rewards of ownership have passed to the buyer and it can be reliably measured. Other services are recognised when the services have been performed. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Royalties payable to the Romanian Government on gas sales revenue are disclosed as Cost of Goods Sold in the Consolidated Income Statement.

1.15 Interest income

Interest is recognised when accrued (using the effective interest method). Interest income is included in finance revenue in the income statement.

1.16 Share issue expenses and share premium account

Costs of share issues are written off against the premium arising on the issue of share capital.

1.17 Provisions and contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SEGMENT INFORMATION

The Group has one reportable segment, the exploration, development and production of oil and gas in Romania and administrative functions in the United Kingdom.

No further disclosure of segment revenue and result is required as this is given in the income statements. The following tables present expenditure and certain asset information regarding the Group's geographical segments for the year ended 31 December 2012:

	2012	2011
	£'000	£'000
SEGMENT ASSETS		
United Kingdom	569	539
Romania	1,909	865
	<u>2,478</u>	<u>1,404</u>
 CAPITAL EXPENDITURE		
United Kingdom	1	4
Romania	548	113
	<u>549</u>	<u>117</u>

Capital expenditure consists of the purchase of property, plant and equipment and exploration and evaluation expenditure as recorded in the Consolidated Profit and Loss Statement.

3. OPERATING LOSS

	<u>GROUP</u>	
	2012	2011
	£'000	£'000
Operating loss is stated after charging:		
Amortisation (note 10)	27	25
Depreciation and depletion (note 11)	52	4
Net foreign exchange differences	(184)	158
	<u>(184)</u>	<u>158</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

4. FINANCING COSTS

	<u>GROUP</u>	
	2012 £'000	2011 £'000
Interest payable on loans	10	116
Other financing costs	5	77
Total financing costs	15	193

5. AUDITORS' REMUNERATION

	<u>Current Auditor GROUP</u>		<u>Previous Auditor GROUP</u>	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Audit services				
Fees payable to the Company's auditors for the audit of the Group's consolidated accounts	30	-	9	46
Non-audit services				
Fees payable to the Company's auditors for other services:				
- other services pursuant to legislation	-	-	-	70
- other services relating to corporate finance transactions	-	-	8	7
- taxation	6	-	-	-
	36	-	17	123

During 2012 the Company changed auditor from Ernst & Young LLP to BDO UK LLP.

During 2011 the Company's previous auditors provided the following non-audit services:

- An audit of the Company's balance sheet at 30 June 2011 in connection with the agreement with Key Petroleum Limited which was terminated on 30 September 2011.
- An audit of the Company's balance sheet at 17 November 2011 fulfilling a requirement of the re-registration of the company as a Plc.
- Valuation of options in Zeta Petroleum Limited that were cancelled in exchange for cash and shares in Zeta Petroleum plc. The valuation was undertaken using the Black Scholes method.

The Company's previous auditors were considered best suited to undertake these non-audit services due to their existing knowledge of the Group's financial structure, background and activities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

6. EMPLOYMENT COSTS

	GROUP	
	2012	2011
	£'000	£'000
Wages and salaries	758	626
Social security costs	43	16
Share based payments arising from equity-settled share based payment transactions	1,028	142
	1,829	784

The weighted average number of employees (including executive directors) during the year was:

	GROUP	
	2012	2011
Management	3	2
Administration	5	5
	8	7

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

7. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

GROUP AND COMPANY:	2012 £'000	2011 £'000
Basic salary and fees	614	435
Share based payments	984	142
	1,598	577

	2012		2011	
	Basic salary and fees £'000	Share based payments £'000	Basic salary and fees £'000	Share based payments £'000
T. Osborne – total emoluments	15	82	-	-
P. Crookall – total emoluments	145	246	44	58
S. West – total emoluments	197	410	150	-
P. Lewis – total emoluments	12	-	-	-
C. Manifold – total emoluments	14	-	-	-
M. Scott – total emoluments	9	-	1	-
R. Gherghetta – total emoluments	-	-	10	28
Total Directors	392	738	205	86
B. Popescu – total emoluments	121	164	132	42
H. Bone – total emoluments	85	57	85	14
J. Micu – total emoluments	16	25	13	-
Total Key Management Personnel	222	246	230	56

S West was the highest paid Director in the 2012 Financial Year.

Details of interests in share options for each director are set out in the Directors Report on page 11.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

8. TAXATION

	2012 £'000	2011 £'000
<i>Current income tax:</i>		
Current income tax charge	-	-

A reconciliation of the income tax expense applicable to the accounting loss before tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate is as follows:

	2012 £'000	2011 £'000
Accounting loss before tax	(5,068)	(1,050)
Expected tax credit at standard UK effective corporation tax of 26.5% (2010 – 28%)	(1,343)	(278)
Disallowed expenses	61	88
Share based payment expense	272	38
Unrecognised temporary differences on licenses and exploration costs	611	36
Effect of lower tax rates in Romania	76	37
Unrecognised tax losses	323	79
Tax charge for the year	-	-

The Group has tax losses arising in the UK of £7,882,077 (2011: £7,116,224) and a deferred tax asset not recognised in the accounts of £2,088,751 (2011: £1,722,546) that are available indefinitely for offset against future taxable profits of the companies in which these losses arose. In addition the Group has tax losses arising in Romania of £11,353,445 (2011: £1,016,974) and a deferred tax asset not recognised in the accounts of £1,816,551 (2011: £162,716) that are eligible to be carried forward for up to seven years as set out below. The Directors do not consider it appropriate to provide for any deferred tax asset on the basis that there are insufficient profits arising in the foreseeable future against which to offset the losses.

Expiration of Romanian tax losses:

Due to expire in 1 year	£14,052
Due to expire in 2 years	£1,852,220
Due to expire in 3 years	£2,730,990
Due to expire in 4 years	£2,478,609
Due to expire in 5 years	£2,855,704
Due to expire in 6 years	£693,335
Due to expire in 7 years	£728,535

The Group has non-trading losses carried forward in the UK of £31,592 (2011: £28,134) that are available indefinitely for offset against future non-trading profits of the companies in which these losses arose.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

At year end the Company had an unrecognised deferred tax asset of £272,491 (2011: nil) arising from share based payments

Deferred tax assets of £3,945 (2011: £3,945) arising from deferred capital allowances, £733,819 (2011: £417,116) in respect of exploration costs and £51,343 (2011: £46,854) in respect of licenses acquired have not been recognised in the consolidated financial statements on the basis that there will not be sufficient taxable profits for the temporary difference to be reversed in the foreseeable future.

9. LOSS PER SHARE

	2012	2011
	£'000	£'000
Loss for the year	<u>(5,068)</u>	<u>(1,050)</u>
Loss for the year attributable to the equity holders	<u>(5,068)</u>	<u>(1,050)</u>

Basic and diluted loss per share is calculated on the loss for the year attributable to equity holders of the parent of £5,068,000 (2011: £1,050,000) and divided by the weighted average of 108,662,447 (2011: 55,732,271) ordinary shares.

The basic and diluted loss per share are the same as there are no dilutive effects on earnings as the effect of the exercise of share options would be to decrease the loss per share. Details of share options that could potentially dilute earnings per share in future years are set out in Note 21.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

10. INTANGIBLE ASSETS

	GROUP		
	Licence Acquisition Costs £'000	Software Costs £'000	Total £'000
Cost:			
As at 1 January 2011	664	25	689
Effect of movement in foreign exchange	(21)	-	(21)
At 31 December 2011	643	25	668
Amortisation:			
As at 1 January 2011	(248)	(25)	(273)
Provided in the year (see note 3)	(25)	-	(25)
Effect of movement in foreign exchange	9	-	9
At 31 December 2011	(264)	(25)	(289)
Net book value at 31 December 2011	379	-	379
Cost:			
As at 1 January 2012	643	25	668
Additions	476	-	476
Disposals	(156)	(25)	(181)
Effect of movement in foreign exchange	(21)	-	(21)
At 31 December 2012	942	-	942
Amortisation:			
As at 1 January 2012	(264)	(25)	(289)
Provided in the year (see note 3)	(27)	-	(27)
Write-back on disposal	-	25	25
Effect of movement in foreign exchange	13	-	13
At 31 December 2012	(278)	-	(278)
Net book value at 31 December 2012	664	-	664

Acquisition of the Bobocu licence, Romania

On 15 January 2007 Zeta Petroleum (Romania) SRL acquired the Bobocu licence in Romania. This licence was ratified by the Romanian government on 19 December 2007. The carrying amount of this licence as at 31 December 2012 is £312,156.

Included in 2012 licence acquisition additions is £186,000 paid to Armax through the issue of shares in Zeta Petroleum plc, a partner in the Jimbolia licence in settlement of a dispute as well as a transfer from trade receivables of £290,000 which was recognised as a payment for intangibles when the NAMR transferred a portion of the Jimbolia licence from Armax to Zeta Petroleum (Romania) S.R.L.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

11. PROPERTY, PLANT AND EQUIPMENT

	GROUP			Total £'000
	Office Equipment £'000	Oil & Gas Assets £'000	Motor Vehicles £'000	
Cost:				
As at 1 January 2011	50	-	4	54
Additions	6	-	-	6
Disposals	(3)	-	-	(3)
As at 31 December 2011	53	-	4	57
Additions	3	509	37	549
Disposals	(15)	-	-	(15)
Effect of movement in foreign exchange	-	40	-	40
As at 31 December 2012	41	549	41	631
Depreciation:				
As at 1 January 2011	(46)	-	(1)	(47)
Provided in the year (see note 3)	(3)	-	(1)	(4)
Disposals	3	-	-	3
As at 31 December 2011	(46)	-	(2)	(48)
Provided in the year (see note 3)	(4)	(43)	(5)	(52)
Disposals	15	-	-	15
As at 31 December 2012	(35)	(43)	(7)	(85)
Net book value at 1 January 2011	4	-	3	7
Net book value at 31 December 2011	7	-	2	9
Net book value at 31 December 2012	6	506	34	546

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

	COMPANY	
	Office Equipment £'000	Total £'000
Cost:		
As at 1 January 2011	39	39
Additions	4	4
Disposals	(3)	(3)
As at 31 December 2011	40	40
Additions	1	1
Disposals	(9)	(9)
As at 31 December 2012	32	32
Depreciation:		
As at 1 January 2011	(39)	(39)
Provided in the year (see note 3)	(1)	(1)
Disposals	3	3
As at 31 December 2011	(37)	(37)
Provided in the year (see note 3)	(2)	(2)
Disposals	9	9
As at 31 December 2012	(30)	(30)
Net book value at 1 January 2011	-	-
Net book value at 31 December 2011	3	3
Net book value at 31 December 2012	2	2

12. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2012 £'000	2011 £'000
Cost:		
As at start of year	1	1
Acquisition of Regal Petroleum Romania SRL	595	-
As at end of year	596	1

During the year the Company purchased 100% of the share capital of Regal Petroleum Romania SRL. The Company's only other directly held subsidiary is Zeta Petroleum (Romania) SRL, a Romanian incorporated company in which the Company holds 100% of the entire issued capital. The principal activities of the Company's subsidiaries are exploration and development and the companies operate in Romania.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

13. TRADE RECEIVABLES

	GROUP		COMPANY	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
VAT receivables	547	169	20	12
GST receivables	13	-	13	-
Other receivables	2	428	-	109
Loans to joint venture	115	-	-	-
Prepayments	32	181	16	181
As at end of year	709	778	49	302

14. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash at bank and on hand	559	238	518	233
As at end of year	559	238	518	233

Cash at bank earns interest at floating rates based on a discount to US\$ / GBP LIBOR. Short-term deposits are made for varying periods of between one day and one month depending on the future cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of the Group's and Company's cash and cash equivalents is £559,000 (2011: £238,000) and £518,000 (2011: £233,000) respectively.

The Company seeks to allocate cash balances between deposits earning a higher rate of interest and deposits that are at call and used to fund operations and working capital requirements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

15. PROVISIONS

A provision was recognised in respect of tax expenses which arose due to judgements being made on the taxation of the Company's interest income for 2006 through 2011. The provision consisted of possible corporation tax payable on interest income as well as interest and penalties that may be imposed by HMRC should HMRC disagree with the Company's position. This provision was written back in 2012 after management sought independent opinion which supported management's view that there is no tax liability on interest income.

	GROUP		COMPANY	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Corporation Tax				
As at start of year	78	75	78	75
Arising during the year	-	3	-	3
Write-back through Income Statement	(78)	-	(78)	-
As at end of year – Corporation Tax	-	78	-	78
Provision for Third Party Payments				
As at start of year	-	48	-	-
Arising during the year	-	33	-	-
Transfer to retained earnings	-	(81)	-	-
As at end of year – Provision for Third Party Payments	-	-	-	-
Provision for Decommissioning				
As at start of year	-	-	-	-
Arising during the year	1	-	-	-
As at end of year – Provision for Decommissioning	1	-	-	-
Total provisions	1	78	-	78

The provision for third party payments related to a claim Rompetrol SA lodged with Zeta Petroleum (Romania) SRL for costs relating to the Zegujani licence. This claim was settled for US\$125,000 and the provision was transferred to accrued expenses in 2011.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

16. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade payables	83	200	52	201
Other taxes and social security costs	29	9	28	9
Accruals	453	158	28	70
As at end of year	565	367	108	280

17. OTHER FINANCIAL LIABILITIES

	GROUP		COMPANY	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Finance lease liabilities				
Non-current	-	-	-	-
Current	19	-	-	-

The finance leases are denominated in Euros. Lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default.

	As at 31 December 2012 £'000	As at 31 December 2011 £'000
Finance lease liabilities – minimum lease payments		
- due within one year	21	-
Finance charges allocated to future periods	(2)	-
Present value of finance lease liabilities	19	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

18. INTEREST-BEARING LOANS & BORROWINGS

	GROUP		COMPANY	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Convertible Note				
Current	-	2,507	-	2,507
Financial Liability				
Current	-	28	-	28

On 27 August 2008 the Company signed a US\$3.2 million convertible loan agreement with GM Investment & Co Limited for the purposes of financing the drilling of an exploration well in Turkey and to fund working capital requirements. The facility was fully drawn down in 2009.

Interest was charged monthly at 1 month USD LIBOR rate plus 4%. Drawn down amounts and interest were repayable when the facility expired. On 14 May 2012 the entire balance of the fully drawn US\$3.2 million convertible loan from GM Investment Limited was settled through conversion into 18,136,291 fully paid ordinary shares at a conversion price of AU\$0.20 per share and a cash payment of AU\$88,675 (£55,652). At the date of conversion the entire balance of the loan was US\$3,717,048 comprising of US\$3,200,000 (£1,990,720) principle and US\$517,048 (£321,656) interest. The cash payment component was converted into Australian dollars at the prevailing exchange rate at the date of conversion.

Borrowing costs with an amortised cost of £74,286 as at 31 December 2011 have been netted off against this facility in accordance with IAS 39.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

19. SHARE CAPITAL

GROUP AND COMPANY:	31 December 2012 Number	31 December 2012 £'000	31 December 2011 Number	31 December 2011 £'000
Allotted, issued and fully paid:				
As at start of year	70,863,709	71	3,260,209	3
Issue of new shares:				
- Allotment 19 January 2011 ⁱ	-	-	12,500	-
- Allotment 11 May 2011 ⁱⁱ	-	-	175,000	-
- Bonus issue 17 November 2011 ⁱⁱⁱ	-	-	51,716,000	52
- Allotment 17 November 2011 ^{iv}	-	-	1,700,000	2
- Allotment 21 December 2011 ^v	-	-	14,000,000	14
- Allotment 21 May 2012 ^{vi}	41,752,240	42	-	-
- Allotment 21 May 2012 ^{vii}	18,136,291	18	-	-
- Allotment 3 July 2012 ^{viii}	10,000	-	-	-
- Allotment 31 August 2012 ^{ix}	2,600,000	2	-	-
As at end of year	133,362,240	133	70,863,709	71

ⁱ Allotment 19 January 2011: 12,500 shares with a nominal value of £0.001 were issued at issue price of £4 per share.

ⁱⁱ Allotment 11 May 2011: 175,000 shares with a nominal value of £0.001 were issued at an issue price of £4 per share.

ⁱⁱⁱ Bonus share issue 17 November 2011: 51,716,000 shares with a nominal value of £0.001 were issued with a transfer of £51,716 from the share premium reserve.

^{iv} Allotment 17 November 2011: 1,700,000 shares with a nominal value of £0.001 were issued at an issue price of £0.128 (AU\$0.20) per share. These shares were issued in part consideration for the cancellation of share options

^v Allotment 21 December 2011: 14,000,000 shares with a nominal value of £0.001 were issued at an issue price of £0.064 (AU\$0.10) per share.

^{vi} Allotment 21 May 2012: 41,752,240 shares with a nominal value of £0.001 were issued at an issue price of £0.13 (AU\$0.20) per share.

^{vii} Allotment 21 May 2012: 18,136,291 shares with a nominal value of £0.001 were issued at an issue price of £0.13 (AU\$0.20) per share on conversion of the loan from GM Investments Limited.

^{viii} Allotment 3 July 2012: 10,000 shares with a nominal value of £0.001 were issued at an issue price of £0.13 (AU\$0.20) per share on conversion options.

^{ix} Allotment 31 August 2012: 2,600,000 shares with a nominal value of £0.001 were issued at an issue price of £0.07 (AU\$0.11) per share to Armax Gaz SA upon reaching settlement of a dispute on the Jimbolia concession.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

20. SHARE PREMIUM

GROUP AND COMPANY:	2012	2011
	£'000	£'000
As at start of year	1,773	7,971
Arising on shares issued ⁱ	2,549	1,637
Share issue from cancellation of options	-	217
Transfer to share capital	-	(52)
Transfer to retained profits	-	(8,000)
Transfer from retained profits	139	-
Issue of options	2,371	-
As at end of year	6,832	1,773

On 17 November 2011, the Company passed a special resolution to reduce the credit of the share premium by £8,000,000 to £720,706. This transfer to retained profits was required as part of the process required to re-register Zeta Petroleum as a public company. It is a requirement under the United Kingdom Companies Act 2006 for the amount of the Company's net assets to be greater than the aggregate of its called-up share capital and undistributable reserves. In order to comply with this statutory requirement, the Company reduced its capital by converting £8 million of share premium reserves into distributable reserves.

21. SHARE BASED PAYMENT RESERVE

GROUP AND COMPANY:	2012	2011
	£'000	£'000
As at start of year	-	1,054
Charge for the year - employees	1,028	(14)
Charge for the year – non-employee share raising costs	168	-
Write-back of employee share options lapsed	-	(156)
Share options cancelled	-	(884)
As at end of year	1,196	-

The expense recognised for employee and non-employee services during the year is shown in the following table:

GROUP AND COMPANY:	2012	2011
	£'000	£'000
Expense arising from equity-settled share-based payment transactions	1,028	143
Total expense arising from share-based payment transactions	1,028	143

ⁱ includes placing costs of £655,789

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

On 17 November 2011 all outstanding option holders agreed to the cancellation of all outstanding options in consideration for a combination of new shares issued in Zeta Petroleum plc and cash. As at 31 December 2011 there were no outstanding options in the Company.

In consideration for cancellation options holders received a combination of cash and shares. A total of £41,000 was paid in cash and 1,700,000 shares granted with nominal value of £0.001 at £0.128 (AU\$0.20) per share.

The fair value of the options was determined using a Black Scholes valuation as at 17 November 2011. The interest rate used for the model was the nominal rate at the date the options were issued, exercise price and days until expiry based on individual option agreement. Volatility was determined by calculating the volatility for four similar listed companies and applying the average of the four volatilities calculated.

Employee Plan

Under the Employee Plan ("EMP") share options are granted to directors and employees at the complete discretion of the Company. The exercise price of the options is determined by the Company at the date of the grant. Fifty percent (50%) of the options granted vest after twelve months and fifty percent (50%) vest after eighteen months.

The fair value of the options is determined using the Black Scholes method as stated in Note 1.12. The contractual life of each option granted is seven years. There are no cash settlement alternatives.

Options are settled when the Company receives a notice of exercise and cash proceeds from the optionholder equal to the aggregate exercise price of the options being exercised.

Non-Employee Plan

Under the Non-Employee Plan ("NEMP") share options are granted to non-employees at the complete discretion of the Company. The exercise price of the options is determined by the Company at the date of the grant. The options vest at the date of the grant.

The fair value of the options is determined using the Black Scholes method as stated in Note 1.12, and not the value of services provided as this is deemed the most appropriate method of valuation. The contractual life of each option granted ranges from two to five years. There are no cash settlement alternatives. Volatility was determined by calculating the volatility for three similar listed companies and applying the average of the four volatilities calculated.

Options are settled when the Company receives a notice of exercise and cash proceeds from the option holder equal to the aggregate exercise price of the options being exercised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

GROUP AND COMPANY:	2012 Number	2012 WAEP ⁱⁱ	2011 Number	2011 WAEP
Outstanding at the beginning of the year	-	-	400,820	2.54
Granted during the year	73,598,580	0.07	-	-
Exercised during the year	(10,000)	0.13	-	-
Lapsed during the year	-	-	(123,429)	1.27
Cancelled during the year	(1,550,000)	0.10	(277,391)	3.10
Outstanding at end of year	72,038,580	0.07	-	-
Exercisable at end of year	59,588,580	0.05	-	-

The weighted average remaining contractual life for the share options outstanding as at 31 December 2012 is 5.41 years (2011: nil years). The weighted average fair value of options granted during the year was £0.07 (2011: nil). The range of exercise prices for options outstanding at the end of the year was £0.13 - £0.19 (2011: zero).

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2012 and the year ended 31 December 2011:

	2012 (EMP)	2012 (NEMP)	2011 (EMP)	2011 (NEMP)
Expected volatility %	85.26	85.26	-	-
Risk-free interest rate %	3.50	3.00	-	-
Expected life of options (years)	1-7	1-7	-	-
Weighted average share price £	£0.13	£0.19	-	-
Model used	Black Scholes	Black Scholes	-	-

Broker Options

On 11 January 2012 Pursuit Capital were issued 206,000 share options following the successful pre-IPO fundraise. The options have an exercise price of 20 cents any time prior to the expiry date of 21 May 2017. On 21 May 2012 Pursuit Capital were issued 1,670,090 share options following the successful IPO fundraise. The options have an exercise price of 20 cents any time prior to the expiry date of 21 May 2017.

IPO Options

On 21 May 2012 the Company issued 41,752,240 share options following the successful IPO fundraise with one option being attached to every share issued through the IPO. The options have an exercise price of 20 cents any time prior to the expiry date of 15 June 2013.

Loyalty Options

On 26 October 2012 the Company closed a pro-rata non-renounceable rights issue of share options issuing 15,970,250 new share options at a cost of 1 cent each, raising AU\$159,702.30 before expenses. The share options issued under the Loyalty Option Issue have an exercise of 30 cents any time prior to the expiry date of 15 July 2015.

ⁱⁱ weighted average exercise price

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

22. SHARE OPTIONS RESERVE

GROUP AND COMPANY:	2012	2011
	£'000	£'000
As at start of year	-	-
Issue of IPO options	1,993	-
Issue of loyalty options	103	-
	<hr/>	<hr/>
As at end of year	2,096	-

23. EXPENSES BY NATURE

	GROUP	
	2012	2011
	£'000	£'000
Personnel expense	740	497
Professional fees	262	182
Travel	116	138
Exchange rate (gain)/loss	(184)	158
Share based payments	1,028	143
Other	762	424
	<hr/>	<hr/>
Total administration expenses	2,724	1,542

24. ACQUISITIONS

On 31 July 2012 the Group acquired 100% of the voting equity instruments of Regal Petroleum Romania SRL, a company whose principal activity is a 50% working interest in the Suceava concession in Romania. The principal reasons for this acquisition were to secure the supply of the producing Climauti gas field and the significant shallow conventional gas exploration potential and therefore this has been treated as an asset purchase.

The acquisition has the following effect on the Group's assets and liabilities:

	Fair Value
	£'000
Regal Net Assets at Acquisition Date	
Oil and gas assets	508,729
Cash	7,354
Trade and other receivables	79,437
Trade and other payables	<u>(134)</u>
Net assets acquired	<u>595,386</u>
Satisfied as follows:	
Cash consideration paid by the Company ⁱⁱⁱ	<u>595,386</u>

ⁱⁱⁱ Included in the consideration paid is a reimbursement of £178,400 for seismic costs incurred by the vendor during the period between signing the sale and purchase agreement and completion.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

25. FINANCIAL INSTRUMENTS

The Group's and Company's principal financial instruments comprise cash and cash equivalents, short-term deposits and borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments which mainly comprise trade payables which arise directly from its operations. Exposure to currency and interest rate risks arise in the normal course of the Group's business.

Foreign currency risk

The Group operates internationally and has monetary assets and liabilities in currencies other than the functional currency of the operating company involved.

The Group does not use foreign exchange contracts to hedge its currency risk.

Interest rate risk

The Group and Company earn interest from bank deposits at floating rates.

The interest rate profile of the financial assets of the Group and Company as at the end of the year is as follows (excluding short-term assets and liabilities, non-interest bearing):

	GROUP		COMPANY	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Floating rate – within one year:				
Financial Assets				
- Cash and cash equivalents	<u>559</u>	<u>238</u>	<u>518</u>	<u>233</u>
Financial Liabilities				
- Interest bearing loans and borrowings	<u>-</u>	<u>2,507</u>	<u>-</u>	<u>2,507</u>

Floating rate financial assets comprise cash deposits placed on money markets at call and cash at bank.

A one per cent increase/decrease in interest rates on the floating rate would decrease/increase the Group loss by £5,589 (2011: £21,236) and Company loss for the year by £5,176 (2011: £21,277).

Liquidity Risk

The Group and Company monitor liquidity risk on a monthly basis by maintaining cashflow summaries and forecasts extending out for a twelve month period. The Group and Company have no long term cash investments at reporting date. In order to meet both overhead and operational cashflow obligations the Group and Company issues additional equity for cash, and divests interests in asset licenses in order to fund other areas of the business.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The table below summarises the maturity profile of the Group's financial liabilities (undiscounted amounts of principal and related interest) at 31 December 2012 and 2011 based on contractual undiscounted payments:

	On Demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Year ended 31 December 2011						
Convertible note	-	-	2,543	-	-	2,543
Financial liability	-	-	28	-	-	28
Trade and other payables	-	358	-	-	-	358
As at 31 December 2011	-	358	2,571	-	-	2,929
Year ended 31 December 2012						
Trade and other payables	-	536	-	-	-	536
As at 31 December 2012	-	536	-	-	-	536

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2012 and 2011 based on contractual undiscounted payments.

	On Demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Year ended 31 December 2011						
Convertible note	-	-	2,543	-	-	2,543
Financial liability	-	-	28	-	-	28
Trade and other payables	-	271	-	-	-	271
As at 31 December 2011	-	271	2,571	-	-	2,842
Year ended 31 December 2012						
Trade and other payables	-	80	-	-	-	80
As at 31 December 2012	-	80	-	-	-	80

Credit Risk

The Group trades only with recognised, creditworthy third parties. With respect to credit risk arising from the other financial assets of the Group, which is comprised of cash and receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of cash and cash equivalents. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent. As of December 31, 2012 and 2011, there were no past due or impaired financial assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The table below summarizes the Group's and Company's exposure to credit risk for the components of the balance sheets:

	Note	GROUP		COMPANY	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Cash and cash equivalents	14	559	238	518	233
Trade and other receivables	13	2	428	-	109
Amounts receivable from subsidiary		-	-	7,502	4,541
		561	666	8,020	4,883

Fair values of financial assets and financial liabilities

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

	2012		2011	
	Carrying Values £'000	Fair Values £'000	Carrying Values £'000	Fair Values £'000
Financial assets				
Cash and cash equivalents	559	559	238	238
Trade and other receivables	2	2	428	428
Loans and receivables	561	561	666	666
Financial liabilities				
Trade and other payables	(536)	(536)	(358)	(358)
Convertible note	-	-	(2,507)	(2,507)
Financial liabilities measured at amortised cost	(536)	(536)	(2,865)	(2,865)
Financial liability	-	-	(28)	(28)
Financial liabilities at fair value through profit and loss	-	-	(28)	(28)
	25	25	(2,227)	(2,227)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements.

	2012		2011	
	Carrying Values £'000	Fair Values £'000	Carrying Values £'000	Fair Values £'000
Financial assets				
Cash and cash equivalents	518	518	233	233
Trade and other receivables	-	-	109	109
Amounts receivable from subsidiary	1,313	1,313	4,541	4,541
Loans and receivables	1,831	1,831	4,883	4,883
Financial liabilities				
Trade and other payables	(80)	(80)	(271)	(271)
Convertible note	-	-	(2,507)	(2,507)
Financial liabilities measured at amortised cost	(80)	(80)	(2,778)	(2,778)
Financial liability	-	-	(28)	(28)
Financial liabilities at fair value through profit and loss	-	-	(28)	(28)
	1,751	1,751	2,077	2,077

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and other loans approximate their fair values due to short-term maturities. Convertible note was measured at fair value using year end BBA LIBOR rate for one-month deposits. Financial liability was measured at fair value using the standard Black-Scholes model to price a call option.

Financial Instruments Carried at Fair Value

The fair value information as of December 31, 2012 and 2011 of financial liability at fair value through profit and loss are analyzed by source of inputs on fair valuation as follows:

- quoted prices in active markets for identical assets (Level 1);
- those involving inputs other than quoted prices included in Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- those inputs for the asset that are not based on observable market data (unobservable inputs) (Level 3).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The following table shows that changes during the year in the fair value of the financial liability within level 3 of the fair value hierarchy:

	GROUP £'000	COMPANY £'000
Fair value at 1 January 2012	(28)	(28)
Gain recognised in the income statement	-	-
Fair value at 31 December 2012	-	-
Fair value at 1 January 2011	(822)	(822)
Gain recognised in the income statement	794	794
Fair value at 31 December 2011	(28)	(28)

26. RELATED PARTY TRANSACTIONS

Over the period 12 March 2012 to 15 May 2012 Mrs Natalina West (spouse of Stephen West) loaned the Company a total of £65,000 at an interest rate of 8% in order to fund working capital. This loan was repaid on 29 May 2012 via a payment of £65,885 including interest of £885.

On 11 April 2012 Mrs Amanda Crookall (spouse of Philip Crookall) made a loan to the Company of £30,000 at an interest rate of 8% in order to fund working capital. This loan was repaid on 23 May 2012 via a payment of £30,277 including interest of £277.

On 22 March 2012 GM Investment & Co. Limited made a loan to the Company of US\$125,000 at an interest rate of 8% in order to settle an amount payable in respect of a dispute with a former joint venture partner. This loan was repaid on 29 May 2012 via a payment of US\$126,871 including interest of US\$1,871.

On 15 May 2012 the Company reached full and final settlement of all moneys owed to GM Investment & Co Limited under the Convertible Loan Agreement dated 27 August 2008 through the issue of 18,136,291 shares in the Company and a cash payment of AU\$88,675 (£55,652). GM Investment & Co Limited has an interest of issued share capital in the Company of 33.18% following this share allotment.

27. CAPITAL COMMITMENTS

There are no capital commitments outstanding that have not been disclosed in the Statement of Financial Position.

28. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to fund oil and gas exploration and development with a focus on central and eastern Europe. The Group aims to establish and maintain a balanced portfolio that includes production, development, appraisal and exploration stage assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The Group manages its capital commitments by raising funds through the issuance of ordinary shares in the parent company Zeta Petroleum plc and divestment of licence interests. In 2012 a total of AU\$8.35 million was raised from the share allotments on 21 May 2012 (Note 19). The Company defines capital as consisting of Share Capital and Share Premium. The balance of Share Capital and Share Premium at year end was £6,965 million (2011: £1.844 million). Capital commitments involve the initial acquisition of licence interests that the Group believes has the potential to contain commercially viable oil and gas reserves and then the exploration and/or appraisal of these licences by following a work programme that achieves internally stated timelines as well as licence commitments imposed by local governments.

No changes were made in the objectives, policies or processes during the year ended 31 December 2012 and nor were there any externally imposed capital requirements imposed on the Company.

29. POST BALANCE SHEET EVENTS

There have been no events subsequent to the reporting date that require disclosure.

CORPORATE GOVERNANCE STATEMENT

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, the Company has adopted The Corporate Governance Principles and Recommendations (2nd Edition) as published by the ASX Corporate Governance Council (Recommendations).

In light of the Company's size and nature, the Board considers that the current board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The Company's main corporate governance policies and practices as at the date of this Prospectus are outlined below and the Company's full Corporate Governance Plan is available in a dedicated corporate governance information section of the Company's website (www.zetapetroleum.com).

Principles of Best Practice Recommendations

In accordance with ASX Listing Rule 4.10, Zeta Petroleum plc is required to disclose the extent to which it has followed the Principles of Best Practice Recommendations during the financial year. Where Zeta Petroleum plc has not followed a recommendation, this has been identified and an explanation for the departure has been given.

PRINCIPLES AND RECOMMENDATIONS		COMMENT
1.	Lay solid foundations for management and oversight	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	The Company's Corporate Governance Plan includes a Board Charter, which discloses the specific responsibilities of the Board.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	The Company's Corporate Governance Plan includes a section on performance evaluation practices adopted by the Company. The chair will monitor the Board and the Board will monitor the performance of any senior executives who are not Directors, including measuring actual performance against planned performance.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES AND RECOMMENDATIONS		COMMENT
1.3	Companies should provide the information indicated in the <i>Guide to reporting on Principle 1</i> .	<p>Explanation of departures from Principles and Recommendations 1.1 and 1.2 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 1.1 and 1.2 (if any) in its future annual reports.</p> <p>No formal performance evaluation of senior executives has taken place to date. Future annual reports will disclose whether such a performance evaluation has taken place in the relevant reporting period and whether it was in accordance with the process disclosed.</p> <p>The Corporate Governance Plan, which includes the Board Charter, is posted on the Company's website.</p>
2.	Structure the board to add value	
2.1.	A majority of the board should be independent directors.	The Company is currently not in compliance with this recommendation as only one of the four directors is independent.
2.2.	The chair should be an independent director.	The Company is currently not in compliance with this recommendation as Timothy Osborne is a director of the ultimate holding company of a substantial shareholder. The Board believes that the Company, in its current size and level of complexity, cannot justify the expense of searching for, and appointing, an Independent Chairman of the same experience as Mr Osborne. Points of conflict arising from Mr Osborne's lack of independence are to be dealt with by Mr Osborne being excluded in any voting pertaining to potentially conflicting items of business faced by the Board.
2.3.	The roles of chair and chief executive officer should not be exercised by the same individual.	The Company is in compliance with this recommendation.
2.4.	The board should establish a nomination committee.	<p>No formal nomination committee has been established by the Company as yet as the Board considers the Company is not currently of the relevant size or complexity to warrant the formation of a nomination committee. The Board, as a whole, currently serves as the nomination committee.</p> <p>The Company's Corporate Governance Plan includes a Nomination Committee Charter, which discloses the specific responsibilities of the committee.</p> <p>Where necessary, the Board seeks advice of external advisers in connection with the suitability of applicants for Board membership.</p> <p>Once the Board deems that the Company warrants a Nomination Committee, one will be formed in compliance with this Recommendation.</p>

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES AND RECOMMENDATIONS		COMMENT
2.5.	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	<p>The Company's Corporate Governance Plan includes a section on performance evaluation practices adopted by the Company.</p> <p>The Chair will review the performance of the Board, its committees (if any) and individual directors to ensure that the Company continues to have a mix of skills and experience necessary for the conduct of its activities.</p>
2.6.	Companies should provide the information indicated in the <i>Guide to reporting on Principle 2</i> .	<p>The Company has provided details of each director, such as their skills, experience and expertise relevant to their position in this Prospectus and will also provide these details on its website and in future annual reports.</p> <p>Explanation of departures from Principles and Recommendations 2.1, 2.2, 2.3, 2.4 and 2.5 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 2.1, 2.2, 2.3, 2.4 and 2.5 (if any) in its future annual reports.</p> <p>No performance evaluation of the Board, its committees and individual directors has taken place to date as this process is conducted annually and the first year of evaluation has not been completed. Future annual reports will disclose whether such a performance evaluation has taken place in the relevant reporting period and whether it was in accordance with the process disclosed.</p> <p>The Corporate Governance Plan, which includes the Nomination Committee Charter, is posted on the Company's website.</p>
3.	Promote ethical and responsible decision-making	
3.1.	<p>Companies should establish a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> the practices necessary to maintain confidence in the company's integrity the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	<p>The Company's Corporate Governance Plan includes a '<i>Corporate Code of Conduct</i>', which provides a framework for decisions and actions in relation to ethical conduct in employment.</p>

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES AND RECOMMENDATIONS		COMMENT
3.2.	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	The Company's Corporate Governance Plan includes a 'Diversity Policy', which provides a framework for establishing measureable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.
3.3.	Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.	This disclosure has not yet been made as the first year as a listed company has not been completed. Future annual reports will disclose the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.
3.4.	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	This disclosure has not yet been made as the first year as a listed company has not been completed. Future annual reports will disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.
3.5.	Companies should provide the information indicated in the <i>Guide to reporting on Principle 3</i> .	Explanation of departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) in its future annual reports. The Corporate Governance Plan, which includes the Corporate Code of Conduct and Diversity Policy, is posted on the Company's website.
4.	Safeguard integrity in financial reporting	
4.1.	The board should establish an audit committee.	The Company is partially in compliance with this requirement. The Company has established an Audit Committee consisting of Mr Piers Lewis who serves as Committee Chairman and Mr Timothy Osborne. Mr Osborne is a director of the ultimate holding company of a substantial shareholder which does not satisfy full requirements to sit on an Audit Committee.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES AND RECOMMENDATIONS		COMMENT
4.2.	<p>The audit committee should be structured so that it:</p> <ul style="list-style-type: none"> • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members. 	<p>Whilst the Audit Committee is not structured in the manner set out in the Principles and Recommendations, the Board is of the view that the experience and professionalism of the persons on the Committee is sufficient to ensure that all significant matters are appropriately addressed and actioned. Further, the Board does not consider that the Company is of sufficient size to justify the appointment of additional directors for the sole purpose of satisfying this recommendation as it would be cost prohibitive and counterproductive.</p> <p>As the operations of the Company develop the Board will reassess the composition of the audit committee.</p>
4.3.	<p>The audit committee should have a formal charter.</p>	<p>The Company's Corporate Governance Plan includes an Audit and Risk Committee Charter, which discloses its specific responsibilities.</p>
4.4.	<p>Companies should provide the information indicated in the <i>Guide to reporting on Principle 4</i>.</p>	<p>Explanation of departures from Principles and Recommendations 4.1, 4.2 and 4.3 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 4.1, 4.2 and 4.3 (if any) in its future annual reports.</p> <p>The Corporate Governance Plan, which includes the Audit & Risk Committee Charter, is posted on the Company's website.</p>
5.	Make timely and balanced disclosure	
5.1.	<p>Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.</p>	<p>The Company has a continuous disclosure program in place designed to ensure the compliance with ASX Listing Rule disclosure and to ensure accountability at a senior executive level for compliance and factual presentation of the Company's financial position.</p>
5.2.	<p>Companies should provide the information indicated in Guide to Reporting on Principle 5.</p>	<p>The Company has not currently departed from Principle and Recommendation 5.1. The Company will provide an explanation of any departures from Principle and Recommendation 5.1 (if any) in its future annual reports.</p> <p>The Corporate Governance Plan, which includes a continuous disclosure program, is posted on the Company's website.</p>

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES AND RECOMMENDATIONS		COMMENT
6.	Respect the rights of shareholders	
6.1.	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	The Company's Corporate Governance Plan includes a shareholders communication strategy, which aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.
6.2.	Companies should provide the information indicated in the Guide to reporting on Principle 6.	The Company has not currently departed from Principle and Recommendation 6.1. The Company will provide an explanation of any departures from Principle and Recommendation 6.1 (if any) in its future annual reports. The Corporate Governance Plan, which includes a shareholders communication strategy, will be posted on the Company's website.
7.	Recognise and manage risk	
7.1.	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	The Company's Corporate Governance Plan includes a risk management policy. The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.
7.2.	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	The Company's Corporate Governance Plan includes a risk management policy. The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board Meetings.
7.3.	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	The Company has not yet been required to lodge financial statements in Australia and as a result no declaration has been required. Reports on risk management are to be provided to the Board by management or the executive director(s) responsible for the management of the individual risk. The Board will seek the relevant assurance from the management and the executive directors (or their equivalents) at the relevant time.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES AND RECOMMENDATIONS		COMMENT
7.4.	Companies should provide the information indicated in <i>Guide to Reporting on Principle 7</i> .	The Company has not currently departed from Principle and Recommendation 7.1, 7.2 and 7.3. The Company will provide an explanation of any departures from Principle and Recommendation 7.1, 7.2 and 7.3 (if any) in its future annual reports. The Corporate Governance Plan, which includes a risk management policy, is posted on the Company's website.
8.	Remunerate fairly and responsibly	
8.1.	The board should establish a remuneration committee.	The Board has not established a formal Remuneration Committee at this point in the Company's development. It is considered that the size of the Board along with the level of activity of the Company renders this impractical and the Board, acting without the affected director participating in the decision making process, currently serves as a remuneration committee. The Company's Corporate Governance Plan includes a Remuneration Committee Charter, which discloses its specific responsibilities. Remuneration to the executive directors is by way of salary only and to non-executive directors by way of director fees only, with the level of such salary or fees as the context requires, having been set by the Board to an amount it considers to be commensurate for a company of its size and level of activity. There is currently no link between performance and remuneration, however, it is the intention of the Board to re-assess this once the Company commences operations. Further there are no schemes for retirement benefits in existence.
8.2.	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> • consists of a majority of independent directors • is chaired by an independent director • has at least three members 	Although no formal remuneration committee has been established, the Board currently serves as the remuneration committee. The composition of the Board is such that the Company does not currently comply with this recommendation.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES AND RECOMMENDATIONS		COMMENT
8.3.	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	<p>The Board has distinguished the structure of non executive director's remuneration from that of executive directors and senior executives.</p> <p>The Company's Articles of Association provides that the remuneration of non-executive Directors will be not be more than the aggregate fixed sum set by the Articles of Association and subsequently varied by resolution at a general meeting of shareholders.</p> <p>The Board is responsible for determining the remuneration of executive directors and senior executives (without the participation of the affected director). It is the Board's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating executive directors and senior executives fairly and appropriately with reference to relevant employment market conditions and by linking the nature and amount of executive directors' and senior executives emoluments to the Company's financial and operational performance.</p>
8.4.	Companies should provide the information indicated in the <i>Guide to reporting on Principle 8</i> .	<p>Explanation of departures from Principles and Recommendations 8.1, 8.2 and 8.3 (if any) are set out above. The Company will also provide an explanation of any departures from Principles and Recommendations 8.1, 8.2 and 8.3 (if any) in its future annual reports.</p> <p>The Corporate Governance Plan, which includes the Remuneration Committee Charter, is posted on the Company's website.</p>

ASX ADDITIONAL INFORMATION

SUBSTANTIAL SHAREHOLDERS

The issued capital of the Company as at 20 March 2013 is 133,362,240 ordinary shares held by a total of 447 shareholders. Each share entitles the holder to one vote.

At the time of publishing this annual report there is no on-market buy-back.

Classification of Shareholders as at 20 March 2013:

Number of ordinary shares held	Number of holders in each class
1 – 1,000 ¹	4
1,001 – 5,000	6
5,001 – 10,000	113
10,001 – 100,000	238
100,001 – and over.	86

¹ These shareholdings constitute unmarketable parcels of ordinary shares

Substantial Shareholders as at 20 March 2013:

Rank	Name	Units	%
1	GM Investment & Co Limited	43,385,139	32.53
2	D Scanlen	10,000,000	7.50
3	S Pagel	9,094,375	6.82
4	Cresthaven Investments Pty Ltd	8,186,515	6.14
5	Banque Heritage SA	7,000,000	5.25
6	Gradient Capital	5,000,000	3.75
7	WCI Overseas Oil & Gas LLC	3,062,420	2.30
8	Armax Gaz S.A.	2,600,000	1.95
9	JP Morgan Nominees Australia Ltd	2,107,840	1.58
10	AM2 (Bermuda) Ltd	1,670,411	1.25
11	R Gherghetta	1,642,951	1.23
12	Bronzewing Investments Pty Ltd	1,500,000	1.12
13	F W A Aaron	1,384,500	1.04
14	HSBC Custody Nominees	1,189,475	0.89
15	Prospectiuni SA	1,108,039	0.88
16	Blue Capital Limited	1,000,000	0.75
17	Fitel Nominees Limited	1,000,000	0.75
18	KGBR Future Fund Pty Ltd	1,000,000	0.75
19	Colbern Fiduciary Nominees	925,000	0.69
20	Citicorp Nominees Pty Ltd	860,270	0.65

ASX ADDITIONAL INFORMATION

RESTRICTED SECURITIES

The following securities are classified as restricted securities and must be held by the shareholder for a period of 24 months from the date of official quotation¹:

HOLDER	NUMBER OF SECURITIES
Fully paid ordinary shares	
S Pagel	770,500
GM Investment & Co. Limited	6,140,683
Cresthaven Investments Pty Ltd	308,200
P Crookall	183,075
Scott Investment Fund Pty Ltd <Scott Family Superannuation Fund A/C>	497,750
Options exercisable at \$0.20 expiring 11 January 2019¹	
Cresthaven Investments Pty Ltd	5,000,000
P Crookall	3,000,000
T Osborne	1,000,000
Pursuit Capital Pty Ltd	1,876,090

¹ These shares will become unrestricted on 23 May 2014.

ASX LISTING RULE 4.10.19

In accordance with Listing Rule 4.10.19, the Company states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. The business objective is oil and gas exploration, development and production.

CHAPTERS 6, 6A, 6B AND 6C OF THE CORPORATIONS ACT

As the company is incorporated in England and Wales, chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (i.e. substantial holdings and takeovers) do not apply to the Company. In the United Kingdom, the City Code on Takeovers and Mergers (City Code) regulates takeovers and substantial shareholders and the Company is subject to the City Code.