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ZETAPETROLEUM PLC

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

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GENERAL INFORMATION

DIRECTORS

S P West
Non-Executive Chairman

B Popescu
Managing Director

T W Osborne
Non-Executive Director

P Crookall
Non-Executive Director

O Cairns
Non-Executive Director

J Hayward¹
Non-Executive Director

COMPANY SECRETARY

B Hodges

LOCAL AGENT – AUSTRALIA

O Cairns

REGISTERED OFFICE – UNITED KINGDOM

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AUDITOR

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United Kingdom

STOCK EXCHANGE LISTING

Australian Securities Exchange
Share code: ZTA

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PLACE OF INCORPORATION

England

COMPANY NUMBER

5560854

WEBSITE

www.zetapetroleum.com

¹ Appointed 17 February 2014.

CHAIRMAN'S STATEMENT

Zeta Petroleum has a portfolio of multi-stage oil and gas projects in Romania, all of which were acquired at low cost, have relatively low exploration risk due to existing or historic production, and all have significant near term development potential in the form of multiple drill ready targets. The year under review saw appraisal and development activity across our licences including a new well drilled, a previous discovery tested and a data exchange agreed with a subsidiary of Chevron. As a result, in 2014 we will be working towards significantly increasing Zeta's net production and revenues, as we focus on proving up the reserves on our licences and in the process unlock the considerable value of our asset base.

Our portfolio consists of four existing projects: Suceava which includes the producing Climauti gas field with 1P reserves of 1.4 billion cubic feet ('bcf'), two existing discovery wells that we aim to bring into production as well as additional shallow conventional gas prospectivity of up to 80 bcf (un-risked); Jimbolia on which the Veche discovery has Pmean contingent oil resources of 1.72MMbbls; the previously producing Bobocu gas field which has a contingent gas resource of 44.36Bcf and Pmean prospective resources of 14.09Bcf; and the Grivita Nord concession with estimated P50 reserves of 448,000 barrels of oil with an un-risked NPV₁₀ of US\$25.55 million. The Company believes that a substantial value gap has opened up between that of our reserves/resources and Zeta's market capitalisation of A\$1,171,000m (the un-risked NPV₁₀ value of Grivita Nord's reserves alone far exceeds our existing market valuation) and we are working hard to narrow this gap.

Suceava is our most advanced concession with the Climauti gas field already in production. Climauti continues to perform in line with forecast with production of 4.45 million Sm³ of gas during the year. While revenues generated from Climauti are sufficient to cover our corporate overheads in Romania, the real value behind Suceava, as with all our projects, lies with the multiple low risk, low cost development opportunities on the concession, such as the two stranded gas discoveries, Dornesti Sud-1 and SE-1. Both of these have the potential to materially increase our existing revenues in the near term.

In 2013 Dornesti Sud-1 was confirmed as a commercial discovery after it tested at a rate of 26,000 cubic metres per day ('m³/day'). Plans to monetise the discovery using a low cost gas-to-power option are well advanced with first electricity delivery expected in late Q2/early Q3 2014. Once Dornesti Sud-1 is on line, our attention will switch to SE-1, a second suspended discovery well on the licence, which previously flowed gas at commercial rates in testing. In addition to these historic discoveries, Suceava holds multiple leads and prospects with up to 80bcf in prospectivity already mapped. We are not alone in recognising Suceava's potential. During the year we signed a data sharing agreement with Chevron Romania Exploration and Production SRL, a subsidiary of Chevron Corporation (NYSE: CVX), covering Suceava and the adjoining 6,284 sq km Chevron-operated Barlad concession shows. From our side, we are looking to identify gas prospects on Barlad that matches our criteria.

On our Jimbolia licence NIS Gazprom Neft drilled and tested the Jimbolia-100 appraisal well during 2013, targeting the Jimbolia Veche discovery which has a Pmean contingent oil resource of 1.72MMbbls. In line with historic results, the well encountered hydrocarbons in multiple sands: three out of four tested intervals naturally flowed both oil and gas to surface with the third and fourth intervals, which underwent co-mingled testing, flowing rates of 21 barrels per day equivalent. Encouragingly, logging indicated the well has additional shallower gas sand intervals which the operator plans to test in 2014, subject to NAMR approval.



ZETAPETROLEUMPLC

Our third licence is the previously producing Bobocu Gas Field, a development project with a contingent gas resource of 44.36Bcf and Pmean prospective resources of 14.09Bcf. We are currently seeking potential partners to finance the drilling of a sidetrack of the Bobocu 310 well to bring this gas field back into production. In addition to Bobocu 310, four other drill ready prospects have been identified on the licence from a 3-D seismic programme undertaken in 2010. We look forward to securing a partner with whom we can advance this late stage gas project.

During 2013 Zeta acquired a new project subject to NAMR transfer of concession title, Grivita Nord, which was acquired for a nominal upfront sum and a deferred consideration payable by Zeta based on cumulative oil production benchmarks. The maximum deferred consideration payable by Zeta is US\$2.8 million subject to cumulative oil production from the field reaching 240,000 barrels of oil, equating to US\$11.67 per barrel of oil, demonstrating management's ability to secure projects at competitive rates. Grivita Nord previously produced a total of 763,457 barrels of oil from two separate structures: the Northern Structure and the Southern Structure. The latter is estimated to hold P50 reserves of 448,000 barrels of oil with an un-risked NPV₁₀ of US\$25.55 million. Subject to finance, Zeta intends to drill a development well on the Southern Structure and bring the field back into production.

Outlook

All four of our projects hold significant reserves/resources, the potential value of which, assuming sufficient funding and drilling success, far exceeds Zeta's current market capitalisation. While we continue to evaluate opportunities to add new projects to our portfolio, our focus is to close this value gap and I am confident 2014 will see much progress made towards achieving this objective. With further testing due to commence on the Jimbolia 100 after approval has been received from NAMR, Dornesti Sud and possibly SE1 expected to commence production in 2014, and a farm-out process for both Bobocu and Grivita Nord, we are on course to increase production, prove up the reserves on our licences, and crystallise the value of our asset base.

Finally, I would like to thank our shareholders for their continued support and the interest they have shown in the Company. I believe we remain on track to create substantial value for shareholders through the monetisation of our existing portfolio and look forward to providing the market with updates on our progress in due course.

Chairman
28 March 2013

DIRECTORS AND KEY MANAGEMENT

BOARD OF DIRECTORS

The directors have held office for the entire year unless otherwise stated

Stephen West

Non-Executive Chairman

Mr West is a founder of Zeta Petroleum plc and a Chartered Accountant with over 21 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, and Barclays Capital. Mr West is currently a non-executive director of ASX listed Apollo Consolidated Limited.

Bogdan Popescu – appointed 26 September 2013

Managing Director

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 executive positions at Petroconsultants SA/IHS Energy and Earth Sciences Researcher at the Institute of Geology and Geophysics.

Timothy Osborne

Non-Executive Director

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).

Philip Crookall

Non-Executive Director

Mr Crookall is a petrophysicist with over 25 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.

Oliver Cairns – appointed 26 September 2013

Non-Executive Director

Mr Cairns has over 14 years experience in the small-mid cap corporate and capital markets space. Previously he was a corporate financier and Nominated Adviser for AIM companies in London for over 8 years having joined Blue Oar Securities Plc (now Northland Capital Partners Limited) in July 1999. He is also a Non-Executive Director of ASX and AIM listed Vmoto Limited, a global electric scooter company.

James Hayward – appointed 17 February 2014

Non-Executive Director

Mr Hayward has over 25 years experience as an investment banker. He has significant experience in the natural resources space with particular focus on M&A in the oil and gas sector in Australia. Mr Hayward is currently Director of Capital Markets at DH Flinders Limited, a specialist Asia Pacific corporate advisory practice focused on growth orientated small to midcap companies.

KEY MANAGEMENT

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.

Ben Hodges

Chief Financial Officer & Company Secretary

Mr Hodges is a qualified Certified Practising Accountant with over 19 years experience including 11 years in Oil & Gas. Mr Hodges was previously Chief Financial Officer of AIM listed Atlantic Coal plc and has served as Company Secretary for Zeta Petroleum since 2009.

STRATEGIC REPORT

The directors present their strategic report on the Group for the year ended 31 December 2013.

INTRODUCTION

The requirement for a strategic report was introduced for all accounting periods ending on or after 30 September 2013, and therefore this annual report is the first one to comply with the new requirement.

The strategic report comprises five sections, namely: the group's objectives, the Group's strategy, the Group's business model, a review of the Group's business using key performance indicators, and the principal risks and uncertainties facing the business.

OBJECTIVES

The Group's objective is to create shareholder value by monetising hydrocarbon assets through the discovery, development and production of oil and gas bearing concessions.

STRATEGY

The Group's strategy is to acquire and maintain a balanced portfolio of assets at various stages of development including production, exploitation and exploration, located in proven hydrocarbon systems. It has an active development programme aimed at unlocking the inherent value in its existing portfolio from which to leverage off to pursue an aggressive growth strategy in acquiring new near term production assets.

The Group has the following strict criteria that must be satisfied when making acquisition decisions:

- Proven hydrocarbon systems
- Development potential
- Political stability
- Favourable fiscal terms
- Established legal system

BUSINESS MODEL

The Group's aim is to create shareholder value through redevelopment opportunities, by bringing new fields into production and through further exploration of existing assets.

The Group also intends to identify and secure oil and gas assets production opportunities by either:

- Purchasing licences outright through direct negotiation with vendors;
- Farming into acreage owned by third parties and then paying for exploration work to earn a direct equity interest in the projects; or
- Bidding for new licences in competitive bidding rounds.

When assessing projects and their economic viability, the Group uses a combination of existing data together with newly acquired data, such as seismic data, to build an in-house geological model. During this process, the Group estimates recoverable resources which are used as a key driver in determining the economic viability of a project. If a project is deemed to be economic, the Group will, upon successfully securing the project, proceed to drill wells on the project to prove up reserves and, subject to successful drilling results and the securing of sufficient development finance, bring it into production.

STRATEGIC REPORT

Currently, the Group holds oil and gas assets in Romania; however, the Group intends to expand beyond the borders of Romania. The Group intends to leverage off its Romanian operations office and connections to secure opportunities.

Funds required to acquire projects or for exploration work have historically been raised through capital raisings or by bringing in a partner to fund works in return for direct equity in the project.

Going forward, the Group plans to fund the acquisitions and exploration and development works through further capital raising and by farming out interests, together with obtaining debt financing where available and appropriate.

BUSINESS REVIEW

ROMANIA OPERATIONS

(I) BOBOCU CONCESSION (ZETA 100%)

The Bobocu 310 well was drilled to target depth and logs acquired in 2012. 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%)

The Jimbolia-100 appraisal well was spud on the Jimbolia concession by the operator, NIS Gazprom Neft, on 31 December 2012. The well was targeting the Jimbolia Veche discovery, which has two hydrocarbon bearing intervals and a current Pmean 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).

Jimbolia-100 reached its target depth of 2,590 metres on 21 February 2013. The Well was then logged with wireline tools and a 7 inch liner run and cemented into the bottom section of the hole. The drilling logs indicated the presence of hydrocarbons in multiple sands and four targets were identified for perforation and testing: first target 2,559m to 2,565m; second target 2,547m to 2,550m; third target 2,533m to 2,536m and fourth target 2,522m to 2,526m.

Testing of the first interval did not find any indications of oil while the second interval initially tested 15-20 barrels per day equivalent flowing naturally to the surface. After standard conventional stimulation methods were applied, no further oil flowed to surface.

Co-mingled testing operations were then completed on the third and fourth intervals which resulted in 21 barrels per day equivalent of condensate and 67,435m³ per day equivalent of gas (containing high levels of CO₂) flowing naturally to the surface. The well was suspended by the Operator in November 2013 and is due to be re-entered in 2014 for further testing, subject to NAMR approval.

STRATEGIC REPORT

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

The Suceava concession includes the Climauti gas field which is currently producing approximately 12,500m³/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 generated approximately US\$382,000 (£244,000) net revenue to Zeta during 2013.

Zeta and Raffles Energy SRL completed a feasibility study on how best to bring two existing gas discovery wells into production with the aim of increasing 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.

On 22 April 2013 the Company announced that the partners had signed a data sharing agreement with Chevron Romania Exploration and Production SRL ("Chevron"), a subsidiary of Chevron Corporation (NYSE: CVX). The partners entered into the agreement with a view to identifying conventional hydrocarbon targets on the Barlad concession which is owned by Chevron and is adjoined to Suceava. The agreement covers the exchange of well data and similar information relating to the 2,403 sq km Suceava gas concession and the 6,284 km² Chevron-operated Barlad concession. The exchange of such data has the approval of the regulator, the National Agency for Minerals and Resources.

In June 2013 the partners completed a successful production test of the Dornesti Sud-1 well with the well testing at a rate of 26,000 m³/day. On 12 December 2013 Raffles, the concession operator, signed a contract with CAT for the supply, delivery and assembly of a CAT CG170 Series Gas Generator to convert gas produced from the well into electricity which will be sold directly into the Romanian national power grid. It is anticipated that this project will complete and begin delivering cash flows in late Q2 2014 / early Q3 2014.

(v) GRIVITA NORD CONCESSION (ZETA 100%)

On 19 July 2013 the Company signed a sale and purchase agreement to acquire 100% of the issued capital of Celtique Energie SRL ("Celtique Romania"), a wholly owned subsidiary of Celtique Energie Petroleum Limited ("Celtique"). The sole asset of Celtique Romania is a 100% interest in the Grivita Nord concession in Romania. The Grivita Nord concession is located onshore in eastern Romania and covers an area of 3.45km². Under the terms of the sale and purchase agreement the Company paid Celtique minimal upfront consideration and deferred consideration based on cumulative oil production targets. The maximum deferred consideration payable by Zeta is US\$2.8 million in the event that cumulative oil production from the field reaches 240,000 barrels of oil.

The acquisition accounting has not been completed in the 2013 Financial Statements as the NAMR has not yet ratified the title transfer of the concession which is a condition precedent for the transaction to complete. Title transfer is expected to complete in Q2 2014.

(vi) 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 well 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.

STRATEGIC REPORT

CORPORATE AFFAIRS

On 15 June 2013 41,742,240 options quoted under the ASX code ZTAO expired. These options were issued as a part of the IPO that completed on 21 May 2012 and were exercisable at A\$0.20 each. The Company resolved to issue New Options for cash to previously registered holders of the expired options at an issue price of A\$0.001 per New Option on the same terms as the expired options with a new exercise price of A\$0.04 per New Option and an expiry date of 15 June 2014.

On 18 July 2013 the Company lodged a Prospectus for the New Options together with a 1 for 1 non-renounceable rights issue to raise up to A\$1.33 million (before costs) at an offer price of A\$0.01 per Chess Depository Interest ('CDI'), together with one free attaching share option for every two CDIs subscribed for and issued. A total of 7,350,000 New Options were applied for by holders of the expired options raising A\$7,350 (before expenses). These options are quoted under the ASX code ZTAOC.

The rights issue opened on 1 August 2013 and closed on 28 August 2013 raising A\$856,955 (before expenses) after receiving firm commitments for 85,695,500 new CDI's. In accordance with the Prospectus, the shortfall of 48,149,730 CDIs from the Offer was then offered to existing and new investors at the discretion of the Company.

The shortfall offer closed on 18 September 2013 raising an additional A\$153,045 (before expenses). In total A\$1,010,000 (before expenses) was raised and a total of 101,000,010 new CDIs and 50,500,008 free attaching options (exercisable at A\$0.04 any time before 30 June 2015; quoted under ASX code ZTAOB) were allotted.

Following the successful Rights Issue on 26 September 2013 the Company announced a restructuring of the Board as a part of a programme to reduce overhead costs. This restructuring saw Mr Piers Lewis step down from the Board as Non-Executive Director and Mr Oliver Cairns appointed to the Board as a Non-Executive Director. Mr Stephen West stepped down as Managing Director and assumed the position of Non-Executive Chairman. Mr West was replaced as Managing Director by Mr Bogdan Popescu who was appointed to the Board. Mr Timothy Osborne stepped down as Non-Executive Chairman but remained on the Board as a Non-Executive Director and Mr Cameron Manifold and Mr Philip Crookall remained on the Board as Non-Executive Directors.

As at 21 March 2014 the Company maintained a cash position of AU\$86,000 with AU\$160,000 owing from a shareholder pursuant to the Rights Issue as well as income from its producing Romanian gas asset.

KEY PERFORMANCE INDICATORS

During 2013 the Company continued to meet all work requirements on existing licences, acquired additional oil & 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.

DIVERSITY

Zeta is committed to workplace diversity which includes but is not limited to gender, age, ethnicity and cultural background.

Zeta's Diversity Policy defines initiatives which assist the Company in maintaining and improving the diversity of its workforce. In accordance with this policy and ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity which it hopes to

STRATEGIC REPORT

achieve over the next three years as positions become vacant and appropriately skilled candidates are available:

	Actual	Objective
Proportion of women		
Organisation as a whole	20%	50%
Executive management team	Nil	20%
Board	Nil	20%

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:	<p>Risk that no economically producible oil or gas will be discovered or found to be present in the Group's exploration licence areas.</p> <p>The Company attempts to mitigate this risk by undertaking sufficient due diligence where warranted to help ensure opportunities are subjected to proper evaluation.</p>
Capital Intensive Business:	<p>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.</p> <p>The directors regularly review cash flow requirements to ensure the Company can meet financial obligations as and when they fall due.</p>
Natural Gas and Oil Price:	<p>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.</p>
Environmental Regulations:	<p>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.</p>

STRATEGIC REPORT

Government Regulations: The security of tenure over the 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.

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.

By order of the Board



S P West
Director
28 March 2014

1 Berkeley Street
London, W1J 8DJ
United Kingdom

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their report together with the audited financial statements for the year ended 31 December 2013.

RESULTS AND DIVIDENDS

The consolidated income statement is set out on page 18 and shows a loss for the year amounting to £1,274,000 (2012 – loss of £5,068,000). The directors do not recommend the payment of a dividend.

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
Stephen West	12	12
Bogdan Popescu	3	3
Timothy Osborne	12	12
Philip Crookall	12	11
Cameron Manifold	12	10
Oliver Cairns	3	3
Piers Lewis	9	9

POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in Note 30 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's issued share capital as at 31 December 2013 are set out in Note 18 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 2013 for the Company was 4.03 days (2012: 9.42 days).

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

GOING CONCERN

The Group has £83,000 of cash and cash equivalents at 31 December 2013 which is less than short term liabilities. Furthermore the work programme and overheads for the coming year are unfunded. The expected funding requirement is £1,000,000 for capital expenditure. The Group is currently managing creditors and has undertaken a cost reduction exercise however failure to meet the work commitments will jeopardise the ownership of the licence. The Group needs to raise further funds immediately.

The Directors are negotiating a number of potential transactions and are pursuing a legal claim against insurers. On this basis the Directors are confident that further funds can be raised and it is appropriate to prepare the financial statements on a going concern basis. However, all of these transactions are at an early stage and there can be no certainty that any of these transactions will complete. These conditions indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

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).

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REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS AND DIRECTORS' INTERESTS

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

	Date appointed	Date resigned
O Cairns	26 Sep 2013	-
B Popescu	26 Sep 2013	-
C Manifold	30 May 2012	17 Feb 2014
P Crookall	24 Sep 2010	-
T W Osborne	31 Mar 2006	-
S P West	12 Sep 2005	-
P Lewis	04 Sep 2012	26 Sep 2013

The directors who held office at 31 December 2013 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
O Cairns ¹	Ordinary	635,000	1,650,000
B Popescu ²	Ordinary	332,016	690,758
C Manifold	Ordinary	112,500	112,500
P Crookall	Ordinary	437,328	437,328
T W Osborne	Ordinary	-	-
S P West ³	Ordinary	8,186,515	9,286,000

¹ O Cairns acquired 1,015,000 shares on 28 August 2013 as a part of the Rights Issue. 1,620,000 shares are held by Silverlight Holdings Pty Ltd ATF The Cairns Investment A/C in which O Cairns has an indirect beneficial interest.

² B Popescu acquired 358,742 shares on 28 August 2013 as a part of the Rights Issue

³ 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 313,485 shares on 28 August 2013 as a part of the Rights Issue; acquired 250,000 shares on 20 December 2013, 500,800 on 23 December 2013 and 35,200 on 24 December 2013

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

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 (see Note 20 for detail on option plans):

Date of grant	Number of options at start of year	Options granted or acquired during year	Options lapsed 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
O CAIRNS¹				
21 May 2012	15,000	-	(15,000)	-
28 Aug 2013	-	507,500	-	507,500
4 Sep 2013	-	15,000	-	15,000
	15,000	522,500	(15,000)	522,500
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
28 Aug 2013	-	156,743	-	156,743
	7,046,629	156,743	-	7,203,372
B POPESCU				
11 Jan 2012	2,000,000	-	-	2,000,000
28 Aug 2013	-	179,371	-	179,371
	2,000,000	179,371	-	2,179,371

¹ O Cairns has 500,000 options that are held by Silverlight Holdings Pty Ltd ATF The Cairns Investment A/C, an entity in which O Cairns 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.

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REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

SUBSTANTIAL SHAREHOLDERS

The following parties had interests of greater than 3% of the issued share capital of the Company at 31 December 2013:

	Number of shares	% of issued ordinary share capital
GM Investment & Co Limited	86,770,278	37.02
D Scanlen	26,004,500	11.10
HSBC Custody Nominees	14,721,320	6.28
Cresthaven Investments Pty Ltd ⁴	9,286,000	3.96
S Pagel	9,094,375	3.88
Citicorp Nominees	8,825,403	3.77


POLITICAL AND CHARITABLE CONTRIBUTIONS

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

FUTURE DEVELOPMENTS

An indication of likely future developments in the business of the Group is contained in the Strategic Report.

By order of the Board



S P West
Director
28 March 2014

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.

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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
28 March 2014

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 2013 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 statement of cash flows 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 Financial Reporting Council's (FRC'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 FRC's website at www.frc.org.uk/auditscopeukprivate.

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 2013 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.



ZETAPETROLEUMPLC

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

EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group has £83,000 of cash and cash equivalents at 31 December 2013 which is less than short term liabilities. Furthermore the work programme and overheads for the coming year are unfunded. The expected funding requirement is £1,000,000 for capital expenditure. The Group is currently managing creditors and has undertaken a cost reduction exercise however failure to meet the work commitments will jeopardise the ownership of the licence. The Group needs to raise further funds immediately. The Directors are negotiating a number of potential transactions and are pursuing a legal claim against insurers. However, all of these transactions are at an early stage and there can be no certainty that any of these transactions will complete.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the strategic report and 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
28 March 2014

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

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**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013 £'000	2012 £'000
Revenue		244	139
Cost of goods sold		<u>(134)</u>	<u>(82)</u>
Gross Profit		110	57
Exploration and evaluation expenses		(57)	(2,528)
Administrative expenses	23	(1,390)	(2,701)
Other income		<u>62</u>	<u>94</u>
Operating loss		(1,275)	(5,078)
Interest income		4	48
Financing costs	4	<u>(3)</u>	<u>(38)</u>
Loss before Taxation		(1,274)	(5,068)
Income tax	8	-	-
Loss for the year attributable to the equity holders		<u>(1,274)</u>	<u>(5,068)</u>
Loss per ordinary share – basic and diluted	9	<u>(0.7p)</u>	<u>(4.66p)</u>

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013 £'000	2012 £'000
Loss for the year		(1,274)	(5,068)
Other comprehensive income:			
<i>Items which may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(92)	124
Total other comprehensive income		(92)	124
Total comprehensive loss for the year attributable to the equity holders		(1,366)	(4,944)

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

	Note	2013 £'000	2012 £'000
ASSETS			
Non-current assets			
Intangible assets	10	634	664
Property, plant and equipment	11	530	546
		<u>1,164</u>	<u>1,210</u>
Current assets			
Trade and other receivables	13	230	709
Cash and cash equivalents	14	88	559
		<u>318</u>	<u>1,268</u>
TOTAL ASSETS		<u>1,482</u>	<u>2,478</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	18	234	133
Share premium	20	9,279	6,832
Share based payments reserve	21	1,434	1,196
Share options reserve	22	131	2,096
Foreign currency translation reserve		295	387
Retained losses		(10,025)	(8,751)
TOTAL EQUITY		<u>1,348</u>	<u>1,893</u>
Non-current liabilities			
Provisions	15	3	1
		<u>3</u>	<u>1</u>
Current liabilities			
Trade and other payables	16	131	565
Other financial liabilities	17	-	19
		<u>131</u>	<u>584</u>
TOTAL LIABILITIES		<u>134</u>	<u>585</u>
TOTAL EQUITY AND LIABILITIES		<u>1,482</u>	<u>2,478</u>

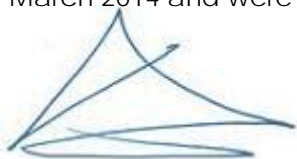
The Financial Statements were approved by the Board of Directors and authorised for issue on 28 March 2014 and were signed on its behalf by:

Stephen West, Director

**COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013**

	Note	2013 £'000	2012 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	2	2
Investment in subsidiary	12	596	596
		<u>598</u>	<u>598</u>
Current assets			
Trade receivables	13	799	1,362
Cash and cash equivalents	14	83	518
		<u>882</u>	<u>1,880</u>
TOTAL ASSETS		<u>1,480</u>	<u>2,478</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	18	234	133
Share premium	20	9,279	6,832
Share based payments reserve	21	1,434	1,196
Share options reserve	22	131	2,096
Foreign currency revaluation reserve		(47)	(41)
Retained losses		<u>(9,660)</u>	<u>(7,846)</u>
TOTAL EQUITY		<u>1,371</u>	<u>2,370</u>
Current liabilities			
Trade and other payables	16	109	108
		<u>109</u>	<u>108</u>
TOTAL LIABILITIES		<u>109</u>	<u>108</u>
TOTAL EQUITY AND LIABILITIES		<u>1,480</u>	<u>2,478</u>

The Financial Statements were approved by the Board of Directors and authorised for issue on 28 March 2014 and were signed on its behalf by:



Stephen West, Director



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013**

	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 2013	133	6,832	1,196	2,096	387	(8,751)	1,893
Loss for the year	-	-	-	-	-	(1,274)	(1,274)
Other comprehensive income	-	-	-	-	(92)	-	(92)
Total comprehensive income	-	-	-	-	(92)	(1,274)	(1,366)
Issue of ordinary shares	101	483	-	-	-	-	584
Transaction costs	-	(5)	-	-	-	-	(5)
Issue of Rights Issue options	-	(24)	-	24	-	-	-
Issue of replacement IPO options	-	-	-	4	-	-	4
Write-back of share options lapsed during year	-	1,993	-	(1,993)	-	-	-
Share based payments	-	-	238	-	-	-	238
As at 31 December 2013	234	9,279	1,434	131	295	(10,025)	1,348

**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

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013**

	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 2013	133	6,832	1,196	2,096	(41)	(7,846)	2,370
Loss for the year	-	-	-	-	-	(1,814)	(1,814)
Other comprehensive income	-	-	-	-	(6)	-	(6)
Total comprehensive income	-	-	-	-	(6)	(1,814)	(1,820)
Issue of ordinary shares	101	483	-	-	-	-	584
Transaction costs	-	(5)	-	-	-	-	(5)
Issue of Rights Issue options	-	(24)	-	24	-	-	-
Issue of replacement IPO options	-	-	-	4	-	-	4
Write-back of share options lapsed during year	-	1,993	-	(1,993)	-	-	-
Share based payments	-	-	238	-	-	-	238
As at 31 December 2013	234	9,279	1,434	131	(47)	(9,660)	1,371

**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



CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £'000	2012 £'000
OPERATING ACTIVITIES			
Loss after tax		<u>(1,274)</u>	<u>(5,068)</u>
Adjustment to reconcile loss to net cash outflow from operating activities			
Net loss on sale of assets		19	-
Depreciation and depletion	11	75	52
Amortisation	10	41	27
Decommissioning		2	1
Share based payments	21	238	1,028
Interest on loans		-	10
Effect of foreign exchange rates		(106)	62
Gain on debt settlement		-	(39)
Interest income		(4)	(48)
Working capital adjustments:			
Decrease/(increase) in receivables		471	(245)
(Decrease)/increase in trade and other payables		(434)	139
Decrease in provisions		-	(80)
Net cash outflow from operating activities		<u>(972)</u>	<u>(4,161)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	(76)	(526)
Interest income		4	48
Farm-in proceeds		-	156
Asset sale proceeds		9	-
Cash acquired on acquisition		-	7
Net cash outflow from investing activities		<u>(63)</u>	<u>(315)</u>
FINANCING ACTIVITIES			
Proceeds from share issue net of costs		579	4,702
Proceeds from replacement IPO options issue	22	4	-
Proceeds from loyalty options issue	22	-	103
Finance lease payments		(19)	(8)
Net cash inflow from financing activities		<u>564</u>	<u>4,797</u>
Net (Decrease)/increase in cash and cash equivalents		(471)	321
Cash and cash equivalents at the beginning of the year	14	<u>559</u>	<u>238</u>
Cash and cash equivalents at the end of the year	14	<u>88</u>	<u>559</u>

**COMPANY STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Note	2013 £'000	2012 £'000
OPERATING ACTIVITIES			
Loss after tax		<u>(1,814)</u>	<u>(8,189)</u>
Adjustment to reconcile loss to net cash outflow from operating activities			
Depreciation	11	2	2
Share based payments	21	238	1,028
Interest on loans		-	8
Expenses recharged		(83)	(60)
Impairment of investment in subsidiary		1,033	6,189
Gain on debt settlement		-	(39)
Foreign exchange (gains)/losses		(152)	(15)
Interest income		(3)	(48)
Working capital adjustments:			
(Increase)/decrease in receivables		(54)	252
Increase/(decrease) in trade and other payables		1	(229)
Decrease in provisions		-	(80)
Net cash outflow from operating activities		<u>(832)</u>	<u>(1,181)</u>
INVESTING ACTIVITIES			
Interest income		3	48
Purchase of property, plant and equipment	11	(2)	(1)
Investment in subsidiaries		-	(595)
Loans to subsidiary undertakings		(186)	(2,791)
Net cash outflow from investing activities		<u>(185)</u>	<u>(3,339)</u>
FINANCING ACTIVITIES			
Proceeds from share issue		578	4,702
Proceeds from replacement IPO options issue	22	4	-
Proceeds from loyalty options issue	22	-	103
Net cash inflow from financing activities		<u>582</u>	<u>4,805</u>
Net Decrease/(increase) in cash and cash equivalents		(435)	285
Cash and cash equivalents at the beginning of the year	14	<u>518</u>	<u>233</u>
Cash and cash equivalents at the end of the year	14	<u>83</u>	<u>518</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013 were authorised for issue by the board of directors on 28 March 2014 and the statements of financial position 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 2013

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 2013 were: Bobocu £295,584 (2012: £312,156); Jimbolia £334,089 (2012: £347,214), Padureni £4,752 (2012: £5,012) and Suceava £524,628 (2012: £505,984), to which no impairment was recorded.

(b) Share based payments

The Group has issued share options to certain employees which is recognised as an expense in the Consolidated Income Statement. The total amount of options granted including any market performance conditions (for example the Company's share price) but excluding the impact of any service or non-market performance vesting conditions (for example the requirement of the grantee to remain an employee of the Group).

Non-market vesting conditions are included in the assumptions regarding the number of options that are expected to vest. The total expense is recognised over the vesting period. At the end of each period the Group revised the number of options expected to be vested on the non-market vesting conditions. It recognises the impact of any revision in the Consolidated Income Statement with a corresponding adjustment to equity.

The options charge recognised on granting of the IPO options was taken directly to Share Premium Reserve as these options are considered to be a cost of financing. This charge was reversed when these options lapsed in June 2013.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

a) Standards, amendments and interpretations effective in 2013:

The following new standards and amendments to standards are mandatory for the first time for the Group for the financial year beginning 1 January 2013. Except as noted, the implementation of these standards did not have a material effect on the Group:

Standard	Impact on initial application	Effective date
IAS 1 (Amendment)	Presentation of items of other comprehensive income	1 July 2012
IFRS 13	Fair value measurement	1 January 2013
IAS 19 (Amendment 2011)	Employee benefits	1 January 2013
IFRS 7 (Amendment 2011)	Disclosures - offsetting financial assets and financial liabilities	1 January 2013

b) Standards, amendments and interpretations that are not yet effective and have not been early adopted:

Standard	Impact on initial application	Effective date
IAS 32 (Amendment 2011)	Offsetting financial assets and financial liabilities	1 January 2014
IFRS 11	Joint arrangements	1 January 2014*
IFRS 10	Consolidated financial statements	1 January 2014*
IFRS 12	Disclosure of interest in other entities	1 January 2014*
IAS 27 (Amendment 2011)	Separate financial statements	1 January 2014*
IAS 28 (Amendment 2011)	Investments in associates and joint ventures	1 January 2014*
IFRIC 21	Levies	1 January 2014
IFRS 9	Financial instruments	1 January 2015

* Effective date 1 January 2014 for the EU.

The Group does not expect the pronouncements to have a material impact on the Group's earnings or shareholders' funds.

1.5 Going concern

The Group has £83,000 of cash and cash equivalents at 31 December 2013 which is less than short term liabilities. Furthermore the work programme and overheads for the coming year are unfunded. The expected funding requirement is £1,000,000 for capital expenditure. The Group is currently managing creditors and has undertaken a cost reduction exercise however failure to meet the work commitments will jeopardise the ownership of the licence. The Group needs to raise further funds immediately.

The Directors are negotiating a number of potential transactions and are pursuing a legal claim against insurers. On this basis the Directors are confident that further funds can be raised and it is

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

appropriate to prepare the financial statements on a going concern basis. However, all of these transactions are at an early stage and there can be no certainty that any of these transactions will complete. These conditions indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

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 2013. 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 2013 was £1,814,000 (2012: £8,189,000).

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 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. The functional currency is Australian dollars. Per IAS 21, 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 Company has chosen to present in British pounds as it is a company incorporated and domiciled in the United Kingdom and has adopted the Australian dollar as the functional currency as significant funds raised have been denominated in Australian dollar and the Company continues to hold the majority of its cash in Australian dollar accounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

The functional currency of the foreign subsidiaries Zeta Petroleum (Romania) SRL and Zeta Petroleum (Suceava) 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 Consolidated Income Statement and capitalised only from the point where commercially viable oil or gas reserves are 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 are ultimately not considered commercially viable, all related costs are written off to the Consolidated 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Padureni 25/03/2008 – 25/03/2028

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 lower of fair value less cost to sell or value in use, value in use being 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.

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 prospectively.

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 Consolidated 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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

All financial liabilities are initially stated at their face value and subsequently at amortised cost.

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

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 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. The off-take sales agreement defines the point at which the buyer assumes all significant risks and rewards of ownership. 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.

At present production from the Climauti gas field, the only producing field in the Group's portfolio is sold a single major energy supplier.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013:

	2013 £'000	2012 £'000
SEGMENT ASSETS		
United Kingdom	190	569
Romania	<u>1,335</u>	<u>1,909</u>
	<u>1,525</u>	<u>2,478</u>
CAPITAL EXPENDITURE		
United Kingdom	2	1
Romania	<u>74</u>	<u>548</u>
	<u>76</u>	<u>549</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>	
	2013 £'000	2012 £'000
Operating loss is stated after charging:		
Amortisation (note 10)	41	27
Depreciation and depletion (note 11)	75	52
Net foreign exchange differences	<u>(118)</u>	<u>(184)</u>

4. FINANCING COSTS

	<u>GROUP</u>	
	2013 £'000	2012 £'000
Interest payable on loans	-	10
Other financing costs	<u>3</u>	<u>28</u>
Total financing costs	<u>3</u>	<u>38</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

5. AUDITORS' REMUNERATION

	GROUP	
	2013 £'000	2012 £'000
Audit services		
Fees payable to the Company's auditors for the audit of the Group's consolidated accounts	30	30
Non-audit services		
Fees payable to the Company's auditors for other services:		
- taxation	-	6
	<u>30</u>	<u>36</u>

6. EMPLOYMENT COSTS

	GROUP	
	2013 £'000	2012 £'000
Wages and salaries	513	758
Social security costs	26	43
Share based payments arising from equity-settled share based payment transactions	238	1,028
	<u>777</u>	<u>1,829</u>

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

	GROUP	
	2013	2012
Management	2	3
Administration	4	5
	<u>6</u>	<u>8</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

7. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

GROUP AND COMPANY:	2013 £'000		2012 £'000	
Basic salary and fees	494		614	
Share based payments	216		984	
Termination benefits	2		-	
	712		1,598	

	2013				2012			
	Basic salary and fees £'000	Share based payments £'000	Termination benefits £'000	Total £'000	Basic salary and fees £'000	Share based payments £'000	Termination benefits £'000	Total £'000
T. Osborne	17	18	-	35	15	82	-	97
P. Crookall ¹	72	54	-	126	145	246	-	391
S. West ²	146	90	-	236	197	410	-	607
B. Popescu	153	36	-	189	121	164	-	285
P. Lewis ³	22	-	-	22	12	-	-	12
C. Manifold ⁴	15	-	-	15	14	-	-	14
O. Cairns ⁵	4	-	-	4	-	-	-	-
M. Scott ⁶	-	-	-	-	9	-	-	9
Total Directors	429	198	-	627	513	902	-	1,415
B. Hodges	18	-	-	18	-	-	-	-
H. Bone	39	13	2	54	85	57	-	142
J. Micu	8	5	-	13	16	25	-	41
Total Key Management Personnel	65	18	2	85	101	82	-	183

B Popescu was the highest paid Director in the 2013 Financial Year.

There were no post-employment benefits or other long term benefits paid to directors or employees.

Details of interests in share options for each director are set out in the Directors Report on page 14.

¹ Basic salary and fees paid to P Crookall in 2013 includes £5,000 in consultancy fees (2012: £nil).

² Basic salary and fees paid to S West in 2013 includes £57,000 paid through a service company (2012: £nil).

³ Basic salary and fees paid to P Lewis in 2013 and 2012 were all paid through a service company.

⁴ Basic salary and fees paid to C Manifold in 2013 and 2012 were all paid through a service company.

⁵ Basic salary and fees paid to O Cairns in 2013 were all paid through a service company.

⁶ Basic salary and fees paid to M Scott in 2012 includes £4,000 paid through a service company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

8. TAXATION

	2013 £'000	2012 £'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:

	2013 £'000	2012 £'000
Accounting loss before tax	<u>(1,274)</u>	<u>(5,068)</u>
Expected tax credit at standard UK effective corporation tax of 23.25% (2012 – 24.5%)	(296)	(1,242)
Disallowed expenses	18	61
Share based payment expense	63	272
Unrecognised temporary differences on licenses and exploration costs	14	611
Effect of lower tax rates in Romania	43	76
Unrecognised tax losses	<u>158</u>	<u>222</u>
Tax charge for the year	-	-

The Group has tax losses arising in the UK of £8,173,930 (2012: £7,670,363) and a deferred tax asset not recognised in the accounts of £1,900,439 (2012: £1,879,239) 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 £11,755,341 (2012: £11,353,445) and a deferred tax asset not recognised in the accounts of £1,880,855 (2012: £1,816,551) 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	£1,852,220
Due to expire in 2 years	£2,730,990
Due to expire in 3 years	£2,478,609
Due to expire in 4 years	£2,855,704
Due to expire in 5 years	£693,335
Due to expire in 6 years	£731,951
Due to expire in 7 years	£412,532

The Group has non-trading losses carried forward in the UK of £nil (2012: £31,592) 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 2013

At year end the Company had an unrecognised deferred tax asset of £294,471 (2012: £251,926) arising from share based payments

Deferred tax assets of £3,969 (2012: £3,945) arising from deferred capital allowances, £735,728 (2012: £733,819) in respect of exploration costs and £57,872 (2012: £51,343) 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

	2013 £'000	2012 £'000
Loss for the year	<u>(1,274)</u>	<u>(5,068)</u>
Loss for the year attributable to the equity holders	<u>(1,274)</u>	<u>(5,068)</u>

Basic and diluted loss per share is calculated on the loss for the year attributable to equity holders of the parent of £1,274,000 (2012: £5,068,000) and divided by the weighted average of 165,938,771 (2012: 108,662,447) 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 2013

10. INTANGIBLE ASSETS

	GROUP		
	Licence Acquisition Costs £'000	Software Costs £'000	Total £'000
Cost:			
As at 1 January 2012	643	25	668
Additions	476	-	476
Disposals	-	(25)	(25)
Divestment through farm-out	(156)	-	(156)
Effect of movement in foreign exchange	(21)	-	(21)
At 31 December 2012	942	-	942
Additions	-	-	-
Effect of movement in foreign exchange	14	-	14
At 31 December 2013	956	-	956
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)
Provided in the year (see note 3)	(41)	-	(41)
Effect of movement in foreign exchange	(3)	-	(3)
At 31 December 2013	(322)	-	(322)
Net book value at 1 January 2012	379	-	379
Net book value at 31 December 2012	664	-	664
Net book value at 31 December 2013	634	-	634

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 2013

11. PROPERTY, PLANT AND EQUIPMENT

	GROUP			
	Office Equipment £'000	Oil & Gas Assets £'000	Motor Vehicles £'000	Total £'000
Cost:				
As at 1 January 2012	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
Additions	2	74	-	76
Disposals	-	-	(41)	(41)
Effect of movement in foreign exchange	-	10	-	10
As at 31 December 2013	43	633	-	676
Depreciation:				
As at 1 January 2012	(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)
Provided in the year (see note 3)	(5)	(63)	(7)	(75)
Disposals	-	-	14	14
As at 31 December 2013	(40)	(106)	-	(146)
Net book value at 1 January 2012	7	-	2	9
Net book value at 31 December 2012	6	506	34	546
Net book value at 31 December 2013	3	527	-	530

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

	COMPANY	
	Office Equipment £'000	Total £'000
Cost:		
As at 1 January 2012	40	40
Additions	1	1
Disposals	(9)	(9)
As at 31 December 2012	32	32
Additions	2	2
As at 31 December 2013	34	34
Depreciation:		
As at 1 January 2012	(37)	(37)
Provided in the year	(2)	(2)
Disposals	9	9
As at 31 December 2012	(30)	(30)
Provided in the year	(2)	(2)
As at 31 December 2013	(32)	(32)
Net book value at 1 January 2012	3	3
Net book value at 31 December 2012	2	2
Net book value at 31 December 2013	2	2

12. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2013 £'000	2012 £'000
Cost:		
As at start of year	596	1
Acquisition of Zeta Petroleum (Suceava) SRL	-	595
As at end of year	596	596

The Company's directly held subsidiaries are Zeta Petroleum (Romania) SRL and Zeta Petroleum (Suceava) SRL. The Company holds one indirect subsidiary, Zeta Petroleum (Bobocu) SRL which is owned by Zeta Petroleum (Romania) SRL. During 2013 the subsidiary Regal Petroleum (Romania) SRL had its name changed to Zeta Petroleum (Suceava) SRL. All are Romanian incorporated companies in which the Company directly or indirectly 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 2013

13. TRADE RECEIVABLES

	GROUP		COMPANY	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Amounts due within one year:				
VAT receivables	95	547	1	20
GST receivables	1	13	1	13
Other receivables	95	2	93	-
Loans to joint venture	31	115	-	-
Prepayments	8	32	8	16
Amounts receivable from subsidiary undertaking	-	-	696	1,313
Total amounts due within one year	230	709	799	1,362

An impairment of investment charge of £1,033,000 was made against amounts receivable from subsidiary undertaking in 2013 (2012 £6,189,000).

14. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash at bank and on hand	88	559	83	518
As at end of year	88	559	83	518

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 £88,000 (2012: £559,000) and £83,000 (2012: £518,000) 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 2013

15. PROVISIONS

A provision for decommissioning of the Climauti gas field is required under Romanian law. This provision is equivalent to 1% of net gas revenue generated by the field. Decommissioning of the field will take place after all commercially recoverable reserves of gas have been extracted. There is a degree of uncertainty as to the timing of these decommissioning outflows due to the possibility of variance between actual and forecast gas production rates and the potential for sand blockage or other obstruction causing remaining reserves to become economically unrecoverable.

	<u>GROUP</u>	
	2013 £'000	2012 £'000
Provision for Decommissioning		
As at start of year	1	-
Arising during the year	<u>2</u>	<u>1</u>
As at end of year – Provision for Decommissioning	<u>3</u>	<u>1</u>

16. TRADE AND OTHER PAYABLES

	<u>GROUP</u>		<u>COMPANY</u>	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade payables	10	83	10	52
Other taxes and social security costs	4	29	4	28
Accruals	<u>117</u>	<u>453</u>	<u>95</u>	<u>28</u>
As at end of year	<u>131</u>	<u>565</u>	<u>109</u>	<u>108</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

17. OTHER FINANCIAL LIABILITIES

	GROUP	
	2013 £'000	2012 £'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 2013 £'000	As at 31 December 2012 £'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 2013

18. SHARE CAPITAL

GROUP AND COMPANY:	31 December 2013 Number	31 December 2013 £'000	31 December 2012 Number	31 December 2012 £'000
Allotted, issued and fully paid:				
As at start of year	133,362,240	133	70,863,709	71
Issue of new shares:				
- Allotment 21 May 2012 ⁱ	-	-	41,752,240	42
- Allotment 21 May 2012 ⁱⁱ	-	-	18,136,291	18
- Allotment 3 July 2012 ⁱⁱⁱ	-	-	10,000	-
- Allotment 31 August 2012 ^{iv}	-	-	2,600,000	2
- Allotment 3 September 2013 ^v	85,695,510	86	-	-
- Allotment 18 September 2013 ^{vi}	15,304,500	15	-	-
As at end of year	234,362,250	234	133,362,240	133

ⁱ 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.

ⁱⁱ 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.

ⁱⁱⁱ 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.

^{iv} 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.

^v Allotment 3 September 2013: 85,695,510 shares with a nominal value of £0.001 were issued at an issue price of £0.0058 (AU\$0.01) per share.

^{vi} Allotment 18 September 2013: 15,304,500 shares with a nominal value of £0.001 were issued at an issue price of £0.0058 (AU\$0.01) per share.

19. RESERVES

Issued capital relates to the nominal value of the shares issued. Share premium relates to the excess of consideration paid over the nominal value of the shares after deducting related expenses.

Share based payments reserve holding the equity element of share option transactions with employees and brokers adjusted for transfer on exercise, cancellation or expiry of options.

Share options reserve holding the equity element of share option transactions with shareholders adjusted for transfer on exercise, cancellation or expiry of options.

Foreign currency translation reserve relates to the foreign exchange effect of the retranslation of the Group's overseas subsidiaries on consolidation into the Group's financial statements. It also relates to the effect of retranslating the Company's non-British pound denominated bank accounts into the British pound presentational currency.

Retained losses is the cumulative net losses recognised in the Statement of Comprehensive Income adjusted for on exercise, cancellation or expiry of options from the share based payments reserve.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

20. SHARE PREMIUM

GROUP AND COMPANY:	2013 £'000	2012 £'000
As at start of year	6,832	1,773
Arising on shares issued ⁱ	478	2,549
Transfer from retained profits	-	139
Lapse of options	1,969	2,371
As at end of year	9,279	6,832

21. SHARE BASED PAYMENT RESERVE

GROUP AND COMPANY:	2013 £'000	2012 £'000
As at start of year	1,196	-
Charge for the year - employees	238	1,028
Charge for the year - non-employee share raising costs	-	168
As at end of year	1,434	1,196

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

GROUP AND COMPANY:	2013 £'000	2012 £'000
Expense arising from equity-settled share-based payment transactions	238	1,028
Total expense arising from share-based payment transactions	238	1,028

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.

ⁱ includes placing costs of £5,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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.

GROUP AND COMPANY:	2013 Number	2013 WAEPⁱⁱ pence	2012 Number	2012 WAEP pence
Outstanding at the beginning of the year	72,038,580	14	-	-
Granted during the year	57,850,008	2	73,598,580	14
Exercised during the year	-	-	(10,000)	13
Lapsed during the year	(41,742,240)	11	-	-
Cancelled during the year	-	-	(1,550,000)	13
Outstanding at end of year	88,146,348	7	72,038,580	14
Exercisable at end of year	88,146,348	7	59,588,580	14

The weighted average remaining contractual life for the share options outstanding as at 31 December 2013 is 4.19 years (2012: 5.41 years). The weighted average fair value of options granted during the year was 0.05 pence (2012: 7 pence). The range of exercise prices for options outstanding at the end of the year was 2 – 19 pence (2012: 13 – 19 pence).

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2013 and the year ended 31 December 2012:

	2013 (EMP)	2013 (NEMP)	2012 (EMP)	2012 (NEMP)
Expected volatility %	-	69.75	85.26	85.26
Risk-free interest rate %	-	2.442-2.533	3.50	3.00
Expected life of options (years)	-	0.8-1.8	1-7	1-7
Weighted average exercise price - pence	-	2	13	19
Expected dividend yield	-	-	-	-
Model used	Black Scholes	Black Scholes	Black Scholes	Black Scholes

ⁱⁱ weighted average exercise price

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Replacement IPO Options

On 3 September 2013 the Company issued 7,350,000 share options following placement whereby existing holders of the 41,752,240 IPO Options that lapsed on 15 June 2013 were given the opportunity to buy replacement options for cash with an exercise price closer to the prevailing share price of the Company. The options have an exercise price of 4 cents any time prior to the expiry date of 15 June 2014.

Rights Issue Options

On 3 September 2013 the Company issued 42,847,758 share options following the successful Rights Issue fundraise with one option being attached to every two shares issued through the Rights Issue. On 18 September 2013 the Company issued 7,652,250 share options following the Rights Issue Shortfall fundraise with one option being attached to every share issued through the Rights Issue Shortfall. The options have an exercise price of 4 cents any time prior to the expiry date of 30 June 2015.

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 had an exercise price of 20 cents and were exercisable at any time prior to the expiry date which was 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.

22. SHARE OPTIONS RESERVE

	2013	2012
GROUP AND COMPANY:	£'000	£'000
As at start of year	2,096	-
IPO options lapsed	(1,993)	-
Issue of replacement IPO options	4	-
Issue of Rights Issue options	24	-
Issue of IPO options	-	1,993
Issue of loyalty options	-	103
	<hr/>	<hr/>
As at end of year	131	2,096

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

23. EXPENSES BY NATURE

	GROUP	
	2013 £'000	2012 £'000
Personnel expense	539	740
Professional fees	80	262
Travel	67	116
Exchange rate (gain)/loss	(120)	(207)
Share based payments	238	1,028
Other	586	762
Total administration expenses	1,390	2,701

24. ACQUISITIONS

On 19 July 2013 the Company signed a sale and purchase agreement to acquire 100% of the issued capital of Celtique Energie SRL ("Celtique Romania"), a wholly owned subsidiary of Celtique Energie Petroleum Limited ("Celtique"). The sole asset of Celtique Romania is a 100% interest in the Grivita Nord concession in Romania. The Grivita Nord concession is located onshore in eastern Romania and covers an area of 3.45km². Under the terms of the sale and purchase agreement the Company is to pay Celtique minimal upfront consideration and deferred consideration based on cumulative oil production targets. The maximum deferred consideration payable by Zeta is US\$2.8 million in the event that cumulative oil production from the field reaches 240,000 barrels of oil.

The acquisition was contingent on NAMR assigning 100% interest in the Grivita Nord concession to Celtique Romania. As at balance date NAMR ratification of 100% interest in Grivita Nord had not been received and as a result Celtique Romania has not been consolidated into the Financial Statements. NAMR ratification is expected to be received in Q2 2014.

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.

Foreign currency risk arises due to assets and liabilities denominated in non-GBP currencies changing in real GBP terms due to movement in foreign exchange rates against the British pound. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Floating rate – within one year:				
Financial Assets				
- Cash and cash equivalents	88	559	83	518

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

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.

The table below summarises the maturity profile of the Group's financial liabilities (undiscounted amounts of principal and related interest) at 31 December 2013 and 2012 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 2012						
Trade and other payables	-	536	-	-	-	536
As at 31 December 2012	-	536	-	-	-	536
Year ended 31 December 2013						
Trade and other payables	-	127	-	-	-	127
As at 31 December 2013	-	127	-	-	-	127

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2013 and 2012 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 2012						
Trade and other payables	-	80	-	-	-	80
As at 31 December 2012	-	80	-	-	-	80
Year ended 31 December 2013						
Trade and other payables	-	105	-	-	-	105
As at 31 December 2013	-	105	-	-	-	105

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, 2013 and 2012, there were no past due or impaired financial assets.

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

	Note	GROUP		COMPANY	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash and cash equivalents	14	88	559	83	518
Trade and other receivables	13	95	2	93	-
Amounts receivable from subsidiary		-	-	696	1,313
		183	561	872	1,831

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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.

	2013		2012	
	Carrying Values £'000	Fair Values £'000	Carrying Values £'000	Fair Values £'000
Financial assets				
Cash and cash equivalents	88	88	559	559
Trade and other receivables	95	95	2	2
Loans and receivables	183	183	561	561
Financial liabilities				
Trade and other payables	(127)	(127)	(536)	(536)
Financial liabilities measured at amortised cost	(127)	(127)	(536)	(536)
	56	56	25	25

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.

	2013		2012	
	Carrying Values £'000	Fair Values £'000	Carrying Values £'000	Fair Values £'000
Financial assets				
Cash and cash equivalents	83	83	518	518
Trade and other receivables	93	93	-	-
Amounts receivable from subsidiary	696	696	1,313	1,313
Loans and receivables	872	872	1,831	1,831
Financial liabilities				
Trade and other payables	(105)	(105)	(80)	(80)
Financial liabilities measured at amortised cost	(105)	(105)	(80)	(80)
	767	767	1,751	1,751

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Financial Instruments Carried at Fair Value

The fair value information as of December 31, 2013 and 2012 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).

26. RELATED PARTY TRANSACTIONS

Payments to related parties

There were no related party transactions during the year other than remuneration to Directors as disclosed in Note 7.

Loans from Zeta Petroleum plc to Subsidiaries

As at 31 December 2013 there were amounts receivable of £7,507,025 (31 December 2012 £7,174,990) due from Zeta Petroleum (Romania) SRL and £411,583 (31 December 2012 £326,960) due from Zeta Petroleum (Suceava) SRL. An impairment of £1,032,997 (2012 £6,189,213) was made against the value of the loan to Zeta Petroleum (Romania) SRL. The amounts were interest free and repayable when sufficient cash resources are available in the subsidiaries.

During the year the Company made cash advances to its subsidiaries of £186,000 (2012 £2,791,000).

Loan from Zeta Petroleum (Suceava) SRL to Zeta Petroleum (Romania) SRL

As at 31 December 2013 there were amounts receivable of £222,658 (31 December 2012 £58,912) due from Zeta Petroleum (Romania) SRL. The amounts were interest free and repayable when sufficient cash resources are available in Zeta Petroleum (Romania) SRL.

During the year the Company made cash advances to Zeta Petroleum (Romania) SRL of £163,746 (2012 £58,912).

All Group transactions were eliminated on consolidation.

27. CAPITAL COMMITMENTS

At 31 December 2013 the Group had a Capital Commitment of €400,000 for the gas to power project initiated during 2013 to bring the Dornesti Sud-1 well in the Suceava licence into production. There are no other capital commitments outstanding that have not been disclosed in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

28. OPERATING LEASE COMMITMENTS

The Group has office leasing commitments.

The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

	GROUP & COMPANY £'000
(I) not later than 1 year	19
(II) later than 1 year and not later than 5 years	3
(III) not later than 5 years	-
Total Operating lease commitments	22

29. 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.

The Group manages its working capital by raising funds through the issuance of ordinary shares in the parent company Zeta Petroleum plc and divestment of licence interests. In 2013 a total of AU\$1.01 million was raised from the share allotments on 18 September 2013 (Note 18). The Company defines capital as consisting of Share Capital and Share Premium. The balance of Share Capital and Share Premium at year end was £9,513 million (2011: £6,965 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 2013 and nor were there any externally imposed capital requirements imposed on the Company.

30. POST BALANCE SHEET EVENTS

There have been no significant events subsequent to balance date.

UNAUDITED 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.

UNAUDITED 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 six directors is independent.
2.2.	The chair should be an independent director.	The Company is currently not in compliance with this recommendation as Stephen West is an indirect beneficiary 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 West. Points of conflict arising from Mr West's lack of independence are to be dealt with by Mr West 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>

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UNAUDITED 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 the Director's Report as well as on its website.</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>

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UNAUDITED 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 ' <i>Diversity Policy</i> ', 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 Oliver Cairns 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.

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UNAUDITED 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>

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UNAUDITED 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.	Reports on risk management have been provided to the Board by management or the executive director(s) responsible for the management of the individual risk. The Board has sought the relevant assurance from the management and the executive directors (or their equivalents) at the relevant time.

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UNAUDITED 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 and ordinary shares and to non-executive directors by way of director fees or ordinary shares 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 expands 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.

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UNAUDITED 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>

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ASX ADDITIONAL INFORMATION

SHAREHOLDINGS

The issued capital of the Company as at 21 March 2014 is 234,362,250 ordinary shares held by a total of 410 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 21 March 2014:

Number of ordinary shares held	Number of holders in each class
1 – 1,000 ¹	4
1,001 – 5,000	5
5,001 – 10,000	83
10,001 – 100,000	212
100,001 – and over.	106

¹ These shareholdings constitute unmarketable parcels of ordinary shares

Top 20 Shareholders as at 21 March 2014:

Rank	Name	Units	%
1	GM Investment & Co Limited	86,770,278	37.02
2	D Scanlen	26,004,500	11.10
3	HSBC Custody Nominees	14,567,635	6.22
4	Cresthaven Investments Pty Ltd	9,286,000	3.96
5	S Pagel	9,094,375	3.88
6	Citicorp Nominees	8,825,403	3.77
7	F Lucas	4,584,500	1.96
8	JP Morgan Nominees Australia Ltd	4,535,118	1.94
9	KGBR Future Fund Pty Ltd	4,000,000	1.71
10	WCI Overseas Oil & Gas LLC	3,062,420	1.31
11	J Hester	3,000,000	1.28
12	Armax Gaz S.A.	2,600,000	1.11
13	Glennbrown Pty Ltd	2,200,000	0.94
14	D & P Neesham	2,115,365	0.90
15	Scott Investment Fund Pty Ltd	2,000,000	0.85
16	Fitel Nominees Limited	1,700,000	0.73
17	AM2 (Bermuda) Ltd	1,670,411	0.71
18	Silverlight Holdings Pty Ltd	1,620,000	0.69
19	Bronzewing Investments Pty Ltd	1,500,000	0.64
20	N Rushton	1,325,581	0.57

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 2019	
S West	5,000,000
P Crookall	3,000,000
B Popescu	2,000,000
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.