Zeta Petroleum Limited

Report and Financial Statements

Year Ended 31 December 2010

ZETA PETROLEUM LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Page:

GENERAL INFORMATION

Directors

T W Osborne (Non-executive Chairman)
S P West (Managing Director)
R Gherghetta
P Crookall (appointed 24 September 2010)

Company Secretary

B Hodges

Registered Office

No.1 Minster Court
Mincing Lane
London
EC3R 7YL
United Kingdom

Company Number

5560854

Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF
United Kingdom

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their report together with the audited financial statements for the year ended 31 December 2010.

Results and Dividends

The consolidated income statement is set out on page 9 and shows a loss for the year amounting to £2,468,000 (2009 – loss of £1,337,000). The directors do not recommend the payment of a dividend.

Principal Activities and Review of Operations

The principal activities of the Group are oil and gas exploration, development and production.

On 5 February 2010 the Company raised funds of £1 million by issuing 277,008 new ordinary shares at a price of £3.61 per share to fund current committed capital expenditure projects and future working capital.

On 8 February 2010 P K Williams and R Gherghetta were appointed non-executive directors of the Company.

On 27 March 2010 the Group commenced the acquisition of 50km2 of 3D seismic over the Bobocu Licence. The 3D seismic survey was completed on 26 April 2010 and was processed and interpreted by November 2010. The 3D seismic survey has enhanced the imaging of flow barriers on the Bobocu gas field and has assisted with identifying bypassed gas and additional deeper prospectivity. The Group is now working towards drilling a gas appraisal well on the field in late 2011/early 2012.

Following extensive negotiations the Group signed a farm-out agreement for the Jimbolia Licence on 17 June 2010 with Armax Gaz S.A. In accordance with the farm-out agreement, Zeta transferred a 50% working interest in the Jimbolia Licence to Armax Gaz S.A. in return for a) Armax Gaz S.A. agreeing, subject to certain terms and conditions, to fund two work-over/sidetrack wells in the Jimbolia Licence up to a maximum cost of €1 million per well; b) Armax Gaz S.A. repaying a proportion of the past costs incurred by the Group on the Jimbolia Licence; and c) Armax Gaz S.A. receiving 100% of net revenues from oil production on the licence until 50% of the cost of the first work-over/sidetrack well is repaid to the farminee, and thereafter all net revenue will be split 50/50.

On 5 May 2010 the Company extended the repayment date of its fully drawn US$3.2 million convertible loan facility from 31 August 2010 to 31 August 2012. In consideration for the two year extension the Company agreed to reduce the conversion price of the convertible loan and the associated 50,000 share options from £7.22 to £3.61 (being the last share issue price immediately prior to the extension).

The Company entered into a funding arrangement and strategic alliance with Cooper Energy Limited (a public Australian oil and gas exploration and production company listed on the Australian Stock Exchange under the code "COE") on 30 July 2010 for oil and gas projects in Romania. The funding arrangement involves Cooper Energy Limited making staged placements of up to US$15.8 million into the Company to fund the appraisal and development of the Bobocu Gas Field and ongoing working capital costs of the Company. In addition, Cooper Energy Limited will provide technical assistance to the Company in relation to the Bobocu Gas Field. The strategic alliance involves the Company and Cooper Energy Limited agreeing to exclusively and mutually seek out and secure oil and gas projects in Romania, with the participation in new projects being in the form of a 50:50 unincorporated joint venture. Pursuant to the funding agreement, on 30 July 2010 Cooper Energy Limited provided funding to the Group of £700,000 by subscribing for 175,000 new ordinary shares in the Company at a price of £4.00 per share.

On 16 September 2010 P K Williams resigned as a director of the Company and on 24 September 2010 P Crookall was appointed a non-executive director of the Company.

On 9 November 2010 the Jimbolia-1 sidetrack well commenced drilling on the Jimbolia Licence. Due to unexpected technical complications the Jimbolia-1 sidetrack well was plugged and abandoned on 6 December 2010 without achieving the objective of evaluating the economic oil production potential of the Lower Pliocene VIII reservoir. The drilling of the Jimbolia-1 sidetrack well has fulfilled the current commitment on the licence and provided Zeta with critical data that will be useful for planning future wells.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

At the balance sheet date there are outstanding amounts payable by Armax on the Jimbolia-1 sidetrack well.

On 22 September 2010 the Group signed a Bidding and Loan Agreement with Cooper Energy Limited and in accordance with this agreement the Company received EUR 10,540,000 into two Company bank accounts (the "Bid Account" and the "Abandonment Account"). The funds were only to be used to bid for assets in an asset divestment process being held in Romania from October 2010 to January 2011

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 and faces a large number of risks including:

Discovery Risk:	Risk that no economically producible oil or gas will be discovered or found to be present in the Group's exploration licence areas.
Capital Intensive Business:	The drilling of wells to discover whether there is oil or gas is a highly capital intensive business and will require the Company to raise capital in the future.
Natural Gas and Oil Price:	The Company's asset value and economic viability of its exploration projects depend on the price of natural gas and oil. The Company's ability to raise funds in the future is therefore likely to be sensitive to the price of natural gas and oil.
Environmental Regulations:	The Group's operations are subject to the environmental risks inherent in the oil and gas industry.

Post Balance Sheet Events

Post balance sheet events are disclosed in Note 32 to the consolidated financial statements.

Share Capital

Details of the Company's authorised and issued share capital as at 31 December 2010 are set out in Note 23 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 2010 for the Company was 41.14 days (2009: 26.38 days).

Going Concern

On 30 July 2010 the Company entered into a funding arrangement with Cooper Energy Limited (a public Australian oil and gas exploration and production company listed on the Australian Stock Exchange under the code "COE") whereby Cooper Energy Limited will make staged placements of up to US$15.8 million into the Company to fund the appraisal and development of the Bobocu Gas Field and ongoing working capital costs of the Company.

As at 31 December 2010, the Group had available funds totalling £518,000. Additional funds of £700,000 were received on 28 April 2011 pursuant to the Cooper Energy Limited funding arrangement.

The Directors believe that the Group's current cash position and the funding arrangement with Cooper Energy Limited provide sufficient cover to meet the Group's anticipated cash flow requirements. After performing detailed analyses, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

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

Directors and Directors' Interests

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

	Date appointed	Date resigned
P Crookall	24 Sep 2010	-
R Gherghetta	8 Feb 2010	-
T W Osborne	31 Mar 2006	-
S P West	12 Sep 2005	-
P Williams	8 Feb 2010	16 Sep 2010

The directors who held office at 31 December 2010 had the following interests in the ordinary shares of the Company according to the register of directors' interests:

	Class of Share	Interest at start of year	Interest at end of year
P Crookall	Ordinary	-	-
R Gherghetta	Ordinary	6,960	62,500
T W Osborne	Ordinary	-	-
S P West[1]	Ordinary	419,000	433,338

[1] S P West's shares are held by Cresthaven Investments Pty Ltd, a company in which S P West has an indirect beneficial interest.

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

Date of grant	Number of options at start of year	Options granted during the year	Number of options at the end of the year	Exercise price	Date from which exercisable	Expiry date
P Crookall						
24.09.10	-	10,000	10,000	£4.0000	24.09.11	24.09.20
24.09.10	-	10,000	10,000	£4.0000	24.03.12	24.09.20
	-	20,000	20,000			

Date of grant	Number of options at start of year	Options granted during the year	Number of options at the end of the year	Exercise price	Date from which exercisable	Expiry date
R Gherghetta						
26.03.10	-	10,000	10,000	£3.6100	26.03.11	26.03.20
26.03.10	-	10,000	10,000	£3.6100	26.09.11	26.03.20
	-	20,000	20,000			

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

Date of grant	Number of options at start of year	Options granted during the year	Number of options at the end of the year	Exercise price	Date from which exercisable	Expiry date
S P West						
29.03.06	50,000	-	50,000	£2.8736	29.03.07	29.03.16
29.03.06	50,000	-	50,000	£2.8736	29.09.07	29.03.16
26.03.10	-	15,000	15,000	£3.6100	17.06.10	26.03.20
26.03.10	-	15,000	15,000	£3.6100	16.11.10	26.03.20
	100,000	30,000	130,000			

Substantial Shareholders

The following parties had interests of greater than 3% of the issued share capital of the Company at 31 December 2010:

	Number of shares	% of issued ordinary share capital
GM Investment & Co Limited	1,208,802	37.08
S Pagel	505,895	15.52
Cresthaven Investments Pty Ltd[2]	433,338	13.29
Cooper Energy Limited	403,464	12.38
WCI Overseas Oil & Gas LLC	191,400	5.87
AM2 (Bermuda) Limited	104,400	3.20
C C G Lewis	100,000	3.07

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

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2010

Statement of Directors' Responsibilities

The directors are responsible for preparing the consolidated and company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare consolidated and company financial statements for each financial year which present fairly the financial position of the Group and Company, and the financial performance and cash flows of the Group and Company for the period. In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and/or Company's financial position and performance; and
- state that the Group and Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the consolidated and company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 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 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 Company's auditors are aware of that information.

Political and Charitable Contributions

The Group made no political contributions or donations to United Kingdom charities during the period.

By order of the Board

S P West
Director
2 June 2011

No.1 Minster Court
Mincing Lane
EC3R 7YL
London
United Kingdom

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

We have audited the financial statements of Zeta Petroleum Limited for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements and the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 32. 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 Directors' Responsibilities Statement set out on page 6, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2010 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.

Opinion on other matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZETA PETROLEUM LIMITED (CONTINUED)

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.

P Wallek

Paul Wallek (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
2 June 2011

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	Restated 2009 £'000
Continuing operations			
Revenue	2	**190**	63
Cost of goods sold		**(26)**	(50)
Gross Profit		**164**	13
Exploration and evaluation expenses		**(1,116)**	(45)
Administrative expenses		**(1,349)**	(1,193)
Operating loss		**(2,301)**	(1,225)
Interest income	4	**3**	2
Financing costs	5	**(200)**	(225)
Loss before Taxation from continuing operations		**(2,498)**	(1,448)
Income tax	9	**(4)**	(1)
Loss for the year from continuing operations		**(2,502)**	(1,449)
Profit/(Loss) after tax from discontinued operations	10	**34**	112
Loss for the year attributable to the equity holders		**(2,468)**	(1,337)
Loss per ordinary share – basic	11	**79.90p**	48.88p
Loss per ordinary share from continuing operations – basic	11	**81.00p**	52.97p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2010

	Note	2010 £'000	Restated 2009 £'000
Loss for the year		**(2,468)**	(1,337)
Other comprehensive income:			
Share based payments		**449**	47
Convertible note options		**(54)**	7
Exchange differences on translation of foreign operations		**157**	256
Options lapsed/cancelled		**-**	(286)
Write-back of lapsed/cancelled options		**-**	286
Total comprehensive loss for the year		**(1,916)**	(1,027)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2010

	Note	2010 £'000	Restated 2009 £'000
ASSETS			
Non-current assets			
Intangible assets	12	**416**	496
Property, plant & equipment	13	**7**	9
		423	505
Current assets			
Trade receivables	16	**131**	17
Prepayments and accrued income		**15**	5
Other receivables	17	**-**	25
Cash and cash equivalents	15	**518**	179
Other assets	18	**9,034**	-
		9,698	226
Total assets		**10,121**	731
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	23	**3**	3
Share premium	24	**7,971**	6,008
Share options reserve	25	**1,207**	812
Foreign currency translation reserve		**131**	(26)
Retained losses		**(10,749)**	(8,281)
Total equity		**(1,437)**	(1,484)
Non-current liabilities			
Interest-bearing loans & borrowings	21	**2,158**	2,017
Provisions	22	**75**	71
		2,233	2,088
Current liabilities			
Trade and other payables	19	**291**	127
Other loans	20	**9,034**	-
		9,325	127
Total liabilities		**11,558**	2,215
Total equity and liabilities		**10,121**	731

Stephen West, Director
2 June 2011

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2010

	Note	2010 £'000	Restated 2009 £'000
ASSETS			
Non-current assets			
Property, plant & equipment	13	-	6
Investment in subsidiary	14	1	1
Other receivables		3,832	2,719
		3,833	2,726
Current assets			
Trade receivables	16	6	6
Prepayments and accrued income		14	4
Cash and cash equivalents	15	408	171
Other assets	18	9,034	-
		9,462	181
Total assets		13,295	2,907
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	23	3	3
Share premium	24	7,971	6,008
Share options reserve	25	1,207	812
Retained losses		(7,243)	(6,116)
Total equity		1,938	707
Non-current liabilities			
Interest-bearing loans & borrowings	21	2,158	2,017
Provisions	22	75	71
		2,233	2,088
Current liabilities			
Trade and other payables	19	90	112
Other loans	20	9,034	-
		9,124	112
Total liabilities		11,357	2,200
Total equity and liabilities		13,295	2,907

Stephen West, Director
2 June 2011

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Issued Capital £'000	Share Premium £'000	Share Options Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2010	3	6,008	812	(26)	(8,281)	(1,484)
Loss for the year	-	-	-	-	(2,468)	(2,468)
Issue of share capital	-	1,963	-	-	-	1,963
Other comprehensive income	-	-	395	157	-	552
At 31 December 2010	**3**	**7,971**	**1,207**	**131**	**(10,749)**	**(1,437)**

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Issued Capital £'000	Share Premium £'000	Share Options Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2010	3	6,008	812	(6,116)	707
Loss for the year	-	-	-	(1,127)	(1,127)
Issue of share capital	-	1,963	-	-	1,963
Other comprehensive income	-	-	395	-	395
At 31 December 2010	**3**	**7,971**	**1,207**	**(7,243)**	**1,938**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Issued Capital £'000	Share Premium £'000	Share Options Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2009	3	6,008	1,044	(282)	(7,201)	(428)
Prior period restatement	-	-	-	-	(29)	(29)
As at 1 January 2009 (restated)	3	6,008	1,044	(282)	(7,230)	(457)
Loss for the year	-	-	-	-	(1,337)	(1,337)
Other comprehensive income	-	-	(232)	256	286	310
At 31 December 2009	**3**	**6,008**	**812**	**(26)**	**(8,281)**	**(1,484)**

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Issued Capital £'000	Share Premium £'000	Share Options Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2009	3	6,008	1,044	(5,462)	1,593
Prior period restatement	-	-	-	(29)	(29)
As at 1 January 2009 (restated)	3	6,008	1,044	(5,491)	1,564
Loss for the year	-	-	-	(911)	(911)
Other comprehensive income	-	-	(232)	286	54
At 31 December 2009	**3**	**6,008**	**812**	**(6,116)**	**707**

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	Restated 2009 £'000
Operating activities			
Loss before tax from continuing operations		**(2,502)**	(1,449)
Profit before tax for the year from discontinued operations		**34**	112
Loss before tax		**(2,468)**	(1,337)
Adjustment to reconcile loss to net cash outflow from operating activities			
Income tax expense		**4**	1
Depreciation	13	**9**	10
Amortisation	12	**26**	86
Borrowing costs amortised		**(51)**	115
Share based payments	26	**325**	47
Interest on loans		**200**	88
Foreign exchange gains		**247**	202
Write-off of exploration and evaluation costs		**1,082**	51
Interest income	4	**(3)**	(2)
Licence sale proceeds		**(176)**	(214)
Carrying value of licences		**26**	50
Working capital adjustments:			
(Increase)/decrease in trade receivables		**(114)**	362
(Increase)/decrease in prepayments and accrued income		**(10)**	5
(Increase)/decrease in other receivables		**25**	(25)
Increase/(decrease) in trade and other payables		**164**	(111)
Net cash outflow from operating activities		**(714)**	(672)
Investing activities			
Purchase of property, plant and equipment	13	**(7)**	(2)
Exploration and evaluation costs		**(1,082)**	(51)
Interest income	4	**3**	2
Licence sale proceeds		**176**	214
Net cash used in investing activities		**(910)**	163
Financing activities			
Convertible note amounts drawn down		-	295
Proceeds from share issue		1,963	-
Net cash inflow from financing activities		**1,963**	295
Net Increase/(Decrease) in cash and cash equivalents		**339**	(214)
Cash and cash equivalents at the beginning of the year	15	**179**	393
Cash and cash equivalents at the end of the year	15	**518**	179

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	Restated 2009 £'000
Operating activities			
Loss before tax from continuing operations		**(1,161)**	(1,023)
Profit before tax for the year from discontinued operations		**34**	112
Loss before tax		**(1,127)**	(911)
Adjustments to reconcile loss to net cash outflow from operating activities			
Income tax expense		**4**	1
Depreciation	13	**6**	8
Amortisation	12	**-**	1
Borrowing costs amortised		**(51)**	115
Share based payments	26	**325**	47
Interest on convertible loan		**200**	88
Expenses recharged		**(138)**	(141)
Foreign exchange gains		**59**	131
Write-off of exploration and evaluation costs		**(34)**	6
Interest income	4	**(3)**	-
Licence sale proceeds		**-**	(151)
Working capital adjustments:			
Increase in trade receivables		**-**	31
(Increase)/decrease in prepayments and accrued income		**(10)**	6
Decrease in trade and other payables		**(22)**	(100)
Net cash outflow from operating activities		**(791)**	(869)
Investing activities			
Exploration and evaluation costs		**34**	(6)
Interest income	4	**3**	-
Licence sale proceeds		**-**	151
Disbursements of loans		**(972)**	217
Net cash used in investing activities		**(935)**	362
Financing activities			
Convertible note amounts drawn down		**-**	295
Proceeds from share issue		**1,963**	-
Net cash inflow from financing activities		**1,963**	295
Net Increase/(Decrease) in cash and cash equivalents		**237**	(212)
Cash and cash equivalents at the beginning of the year	15	**171**	383
Cash and cash equivalents at the end of the year	15	**408**	171

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. Accounting policies

1.1 Authorisation of financial statements and statement of compliance with IFRSs

Zeta Petroleum Limited ("Zeta" or the "Company"), the ultimate parent of the Group, is a private company incorporated in England. The registered office and principal place of business is No.1 Minster Court, Mincing Lane, London, EC3R 7YL. 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 2010 were authorised for issue by the board of directors on 2 June 2011 and the balance sheets were signed on the Board's behalf by S P West.

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

1.2 Basis of preparation

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

1.3 Going concern

On 30 July 2010 the Company entered into a funding arrangement with Cooper Energy Limited (a public Australian oil and gas exploration and production company listed on the Australian Stock Exchange under the code "COE") whereby Cooper Energy Limited will make staged placements of up to US$15.8 million into the Company to fund the appraisal and development of the Bobocu Gas Field and ongoing working capital costs of the Company.

As at 31 December 2010, the Group had available funds totalling £518,000. Additional funds of £700,000 were received on 28 April 2011 pursuant to the Cooper Energy Limited funding arrangement.

The Directors believe that the Group's current cash position and the funding arrangement with Cooper Energy Limited provide sufficient cover to meet the Group's anticipated cash flow requirements. After performing detailed analyses, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

1.4 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of Zeta and its subsidiaries as at 31 December 2010. 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 2010 was £1,127,000 (2009: £911,000).

1.6 Joint ventures

The Group has a number of contractual arrangements with other parties which represent joint ventures.

A joint venture is a contractual arrangement whereby the Group and the other parties undertake an economic activity that is subject to joint control.

Where a Group company undertakes its activities under joint venture arrangements, the Group's share of jointly and directly controlled assets and any liabilities incurred jointly with other ventures are recognised and classified according to their nature. The Group's share of joint venture expenses are recognised when it is probable that the economic benefits associated with the transactions will flow from the Group and their amounts can be measured reliably.

1.7 Foreign currencies

The consolidated financial statements are presented in British pounds, which is the Company's functional and presentational currency. Each entity in the Group translates foreign currency transactions into its functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the Balance Sheet date. Exchange differences arising are taken to the Income Statement.

The functional currency of the foreign subsidiary Zeta Petroleum (Romania) SRL and Zeta Petroleum Exploration 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 taken to reserves.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1.8 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 incurred in the process of determining exploration targets is capitalised initially within exploration assets and subsequently allocated to drilling activities. Exploration drilling costs are initially capitalised on a well by well basis until the success or otherwise of the well has been established. The success or failure of each exploration effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial.

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 Income Statement.

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

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

Capital costs are amortised to write off the cost over the length of the licences. Amortisation begins from the date that the licences are ratified by the Romanian Government. The amortisation periods for the active licences are: Bobocu 19/12/2007 – 19/12/2027; Jimbolia 25/03/2008 – 25/03/2028; Padureni 25/03/2008 – 25/03/2028.

Software costs

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1.9 Property, plant and equipment

Property, plant and equipment are carried at cost, less any accumulated depreciation and accumulated impairment losses. Cost 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: computer equipment (3 years) and 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 Income Statement for the relevant period.

1.10 Impairment of intangible assets and property, plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash-generating unit for impairment assessment purposes at the lowest level of their identifiable cash flows, where these are largely independent of the cash flows of the other Group assets. In the case of exploration assets this will normally be at a field by field level.

If any such indication of impairment exists the Group makes an estimate of the recoverable amount of the asset or cash generating unit. The recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an individual asset or a cash-generating unit exceeds its recoverable amount, the asset/cash-generating unit is considered impaired and is written down to its recoverable amount. In accessing the value in use, the estimated future cash flows are adjusted for the risks specific to the asset/cash-generating unit and are discounted to their present value at a rate that reflects the current market indicators.

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

1.11 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.

1.12 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.

1.13 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.

1.14 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. 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.

1.15 Taxation

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

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

1.15 Taxation *continued*

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 balance sheet date.

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

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.

1.16 Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables as well as loans and borrowings.

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. Borrowings denominated in a currency other than British Pounds are revalued through the profit and loss statement on a monthly basis.

1.17 Revenue recognition

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

1.18 Interest Income

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

1.19 Share issue expenses and share premium account

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1.20 Restatement of prior years comparatives

Adjustments have been made to the 2009 comparative numbers.

The adjustments have arisen due to revised judgements being made on the taxation of the Company's income for 2006 - 2009. The effects of the restatement on those financial statements are summarised below.

	2009 £'000
Increase in tax expense	(1)
Decrease in profits	(1)
Increase in provisions	(30)
Decrease in equity	(30)

2. Revenue

For the year ended 31 December 2010 the revenue received is attributable to Operator fees on the Jimbolia licence in Romania,as well as revenue received on the sale of 50% of the stake in the Jimbolia licence. For the year ended 31 December 2009 the revenue received is attributable to Operator fees on the Duzce/Sayaka licence in Turkey, revenue received on the sale of 85% of the stake in the Padureni licence in Romania and a second instalment received for the sale of the Bartin licence in Turkey

Segment revenue	**Note**	**2010 £'000**	2009 £'000
Turkey	10	-	156
Romania		**190**	63
		190	219

3. Segment information

The Group has one reportable segment, the exploration, development and production of oil and gas. No further disclosure is required in this note as all the relevant disclosure is already detailed throughout the Group financial statements.

The Group's geographical segments are United Kingdom, Turkey and Romania.

Group revenue for the year ended 31 December 2010 is entirely attributable to the Romania geographical segment.

The following tables present expenditure and certain asset information regarding the Group's geographical segments for the year ended 31 December 2010:

Segment assets	**2010 £'000**	2009 £'000
United Kingdom	**9,462**	188
Turkey	**-**	-
Romania	**659**	543
	10,121	731

Capital expenditure	**2010 £'000**	2009 £'000
United Kingdom	**-**	-
Turkey	**(34)**	6
Romania	**1,116**	45
	1,082	51

4. Operating loss

Operating loss is stated after charging/(crediting):

	GROUP		COMPANY	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Amortisation (note 12)	**26**	86	**-**	1
Depreciation (note 13)	**9**	10	**6**	8
Net foreign exchange differences	**251**	224	**206**	116
Interest income	**(3)**	(2)	**(3)**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

5. Financing Costs

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Interest payable on loans	**200**	88	**200**	88
Other financing costs	**-**	137	**-**	137
Total financing costs	**200**	225	**200**	225

6. Auditors' remuneration

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Audit of the financial statements	**28**	23	**28**	23
	28	23	**28**	23

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

7. Employment costs

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Wages and salaries	**489**	572	**334**	478
Social security costs	**18**	41	**18**	41
Share based payments arising from equity-settled share based payment transactions	**283**	47	**283**	47
	790	660	**635**	566

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

	GROUP		COMPANY	
	2010	2009	**2010**	2009
Management	**2**	2	**1**	2
Administration	**3**	3	**1**	2
	5	5	**2**	4

8. Remuneration of Directors

	2010	2009
Group and Company:	**£'000**	£'000
Basic salary and fees	**138**	248
Share based payments	**183**	-
	321	248
P. Crookall – Total Emoluments	**3**	-
R. Gherghetta – Total Emoluments	**9**	-
C. Lewis – Total Emoluments	**-**	145
S. West – Total Emoluments	**120**	103
P. Williams – Total Emoluments	**6**	-

Details of interests in share options for each director are set out in the Directors Report on page 4.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

9. Taxation	**2010**	Restated 2009
Current income tax:	**£'000**	£'000
Current income tax charge	**4**	1

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:

	2010 **£'000**	Restated 2009 £'000
Accounting loss before tax	**(2,464)**	(1,336)
Expected tax credit at standard UK effective corporation tax of 28% (2009 – 28%)	**(689)**	(374)
Disallowed expenses and non-taxable income	**(31)**	25
Share options issued	**91**	13
Non-qualifying depreciation and amortisation	**332**	39
Interest on Tax Provision	**4**	1
Effect of lower tax rates in Romania	**19**	23
Unrecognised tax losses	**278**	274
Effect of lower tax rate in the UK	**-**	-
Tax charge for the year	**4**	1

The Group has tax losses arising in the UK of £6,282,574 (2009: £5,338,588) 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 £661,540 (2009: £503,796) that are eligible to be carried forward for five years. 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.

A deferred tax asset of £462,656 (2009: £67,356) arising from share based payments has 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.

10. Discontinued operations

Following a 2009 strategic review of the Company's assets it was decided to discontinue exploration work on the Duzce/Sakarya licences in Turkey and concentrate on maturing the Group's assets in Romania. Accordingly, on 15 May 2009 the Company gave notice to the Company's joint venture partner on the licences that it was withdrawing from the Duzce/Sakarya licences. The Company no longer holds any licence interests in Turkey.

The results of Turkey operations for the year are presented below:

	2010 **£'000**	2009 £'000
Revenue	-	156
Cost of goods sold	-	-
Gross profit	-	156
Exploration and evaluation expenses	**34**	(6)
Administrative expenses	-	(38)
Income tax	-	-
Profit/(Loss) after tax from discontinued operations	**34**	112

The major classes of assets and liabilities of the Turkey operations as at 31 December are as follows:

	Note	**2010** **£'000**	2009 £'000
Assets			
Other Receivables	16	-	5
		-	5
Liabilities			
Accruals	19	-	(34)
		-	(34)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

10. Discontinued operations *continued*

The net cash flows incurred by the Turkey operations are as follows:

	2010 **£'000**	2009 £'000
Operating	-	(5)
Investing	-	-
Financing	-	-
Net cash outflow	**-**	(5)
Profit (Loss) per ordinary share from discontinuing operations – basic	**0.00p**	4.09p

11. Loss per share

	2010 **£'000**	Restated 2009 £'000
Loss for the year from continuing operations	**(2,502)**	(1,449)
Profit/(Loss) after tax from discontinued operations	**34**	112
Loss for the year attributable to the equity holders	**(2,468)**	(1,337)

Basic loss per share is calculated on the loss for the year attributable to equity holders of the parent of £2,468,000 (2009: £1,337,000) and divided by the weighted average of 3,088,741 (2009: 2,735,299) 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 26.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

12. Intangible assets

GROUP	Licence Acquisition Costs £'000	Exploration and Evaluation £'000	Software Costs £'000	Total £'000
Cost:				
As at 1 January 2009	910	-	25	935
Additions	-	51	-	51
Unsuccessful exploration and evaluation	-	(51)	-	(51)
Disposals	(58)	-	-	(58)
Effect of movement in foreign exchange	(117)	-	-	(117)
At 31 December 2009	735	-	25	760
Amortisation:				
As at 1 January 2009	(179)	-	(24)	(203)
Provided in the period (see note 4)	(85)	-	(1)	(86)
Write-back on disposal	3	-	-	3
Effect of movement in foreign exchange	22	-	-	22
At 31 December 2009	(239)	-	(25)	(264)
Net book value at 31 December 2009	496	-	-	496
Cost:				
As at 1 January 2010	**735**	-	**25**	**760**
Additions	-	**1,082**	-	**1,082**
Unsuccessful exploration and evaluation	-	**(1,082)**	-	**(1,082)**
Disposals	**(28)**	-	-	**(28)**
Effect of movement in foreign exchange	**(43)**	-	-	**(43)**
At 31 December 2010	**664**	-	**25**	**689**
Amortisation:				
As at 1 January 2010	**(239)**	-	**(25)**	**(264)**
Provided in the period (see note 4)	**(26)**	-	-	**(26)**
Write-back on disposal	**3**	-	-	**3**
Effect of movement in foreign exchange	**14**	-	-	**14**
At 31 December 2010	**(248)**	-	**(25)**	**(273)**
Net book value at 31 December 2010	**416**	-	-	**416**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

12. Intangible assets *continued*

Acquisition of the Bobocu licence, Romania

On 15 January 2007 Zeta Petroleum (Romania) SRL acquired the Bobocu licence in Romania. This licence was ratified by the Romanian government on 19 December 2007. The carrying amount of this licence as at 31 December 2010 is £385,429. Amortisation will commence once the work programme enters the production phase and will be calculated on the basis of estimated remaining reserves

COMPANY	Exploration and Evaluation £'000	Software Costs £'000	Total £'000
Cost:			
As at 1 January 2009	-	24	24
Additions	6	-	6
Unsuccessful exploration and evaluation	(6)	-	(6)
At 31 December 2009	-	24	24
Amortisation:			
As at 1 January 2009	-	(23)	(23)
Provided in the period (see note 4)	-	(1)	(1)
At 31 December 2009	-	(24)	(24)
Net book value at 31 December 2009	-	-	-
Cost:			
As at 1 January 2010	**-**	**24**	**24**
Additions	**(34)**	**-**	**(34)**
Unsuccessful exploration and evaluation	**34**	**-**	**34**
At 31 December 2010	**-**	**24**	**24**
Amortisation:			
As at 1 January 2010	**-**	**(24)**	**(24)**
Provided in the period (see note 4)	**-**	**-**	**-**
At 31 December 2010	**-**	**(24)**	**(24)**
Net book value at 31 December 2010	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

13. Property, plant and equipment

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Cost:				
As at start of year	**47**	45	**39**	39
Additions	**7**	2	**-**	-
As at end of year	**54**	47	**39**	39
Depreciation:				
As at start of year	**(38)**	(28)	**(33)**	(25)
Provided in the year (see note 4)	**(9)**	(10)	**(6)**	(8)
As at end of year	**(47)**	(38)	**(39)**	(33)
Net book value at start of year	**9**	17	**6**	14
Net book value at end of year	**7**	9	**-**	6

14. Investment in subsidiaries

	COMPANY	
	2010	2009
	£'000	£'000
Cost:		
As at start of year	**1**	1
As at end of year	**1**	1

The Company's only subsidiary is Zeta Petroleum (Romania) SRL, a Romanian incorporated company in which the Company holds 100% of the entire issued capital. The principal activity of Zeta Petroleum (Romania) SRL is exploration and production and the company operates in Romania.

During 2010 Zeta Petroleum (Romania) SRL incorporated a new company Zeta Petroleum Exploration SRL. Zeta Petroleum Exploration SRL is currently dormant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

15. Cash and cash equivalents

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Cash at bank and on hand	**518**	179	**408**	171
As at end of year	**518**	179	**408**	171

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 £518,000 (2009: £179,000) and £408,000 (2009: £171,000) respectively.

16. Trade receivables

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
VAT receivables	**62**	11	**4**	1
Other receivables	**69**	1	**2**	-
Other receivables attributable to a discontinued operation (Note 10)	-	5	-	5
As at end of year	**131**	17	**6**	6

17. Other receivables

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Loans to third parties	-	25	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

18. Other assets

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Escrow accounts	**9,034**	-	**9,034**	-

On 22 September 2010 the Group signed a Bidding and Loan Agreement with Cooper Energy Limited (Note 20) and in accordance with this agreement the Company received EUR 10,540,000 into two Company bank accounts (the "Bid Account" and the "Abandonment Account"). The funds were only to be used to bid for assets in an asset divestment process being held in Romania in from October 2010 to January 2011.

19. Trade and other payables

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Trade payables	**207**	47	**54**	47
Other taxes and social security costs	**8**	9	**8**	8
Accruals	**76**	37	**28**	23
Accruals attributable to a discontinued operation (Note 10)	-	34	-	34
As at end of year	**291**	127	**90**	112

20. Other loans

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Loans from third parties	**9,034**	-	**9,034**	-

On 22 September 2010 the Group signed a Bidding and Loan Agreement with Cooper Energy Limited and in accordance with this agreement the Company received EUR 10,540,000 into two Company bank accounts (the "Bid Account" and the "Abandonment Account"). The funds were only to be used to bid for assets in an asset divestment process being held in Romania in from October 2010 to January 2011.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

21. Interest-bearing loans & borrowings

	GROUP		COMPANY	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Convertible Note	**2,158**	2,017	**2,158**	2,017

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

Interest is charged monthly at 1 month USD LIBOR rate plus 4%. Drawn down amounts and interest are repayable when the facility expires on 31 August 2012. GM Investment & Co Limited has the option to convert the amount outstanding into ordinary shares in Zeta Petroleum Limited at a price of £3.61 per share, at any point up until the date the facility expires. Borrowing costs with an amortised cost of £74,286 as at 31 December 2010 have been netted off against this facility in accordance with IAS 39.

22 Provisions

A provision is recognised in respect of tax expenses which have arisen due to judgements being made on the taxation of the Company's income for 2006 through 2010.

	GROUP		COMPANY	
		Restated		Restated
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
As at start of year	**71**	70	**71**	70
Arising during the year	**4**	1	**4**	1
As at end of year	**75**	71	**75**	71

23. Share capital

Group and Company:	**2010 Number**	**2010 £'000**	2009 Number	2009 £'000
Authorised:				
Ordinary shares of £0.001 each	**8,000,000**	**8**	4,000,000	4
Allotted, issued and fully paid:				
As at start of year	**2,735,299**	**3**	2,735,299	3
Issue of new shares	**524,910**	**-**	-	-
As at end of year	**3,260,209**	**3**	2,735,299	3

24. Share premium

Group and Company:	2010 £'000	2009 £'000
As at start of year	**6,008**	6,008
Arising on shares issued	**1,963**	-
As at end of year	**7,971**	6,008

25. Share options reserve

Group and Company:	2010 £'000	2009 £'000
As at start of year	**812**	1,044
Charge for the year	**449**	47
Options associated with Convertible Note	**(54)**	7
Less: write-back of employee share options lapsed	**-**	(286)
As at end of year	**1,207**	812

The balance in the share options reserve relates to the fair value of the share options that have been expensed through the income statement in accordance with IFRS 2. During the year 110,000 share options were granted to directors and senior management (2009: nil).

26. Share Based Payments

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

Group and Company:	**2010**	2009
	£'000	£'000
Expense arising from equity-settled share-based payment transactions	**325**	47
Expense arising from cash-settled share-based payment transactions	-	-
Total expense arising from share-based payment transactions	**325**	47

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2010 or 2009.

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. With the exception of options granted to Stephen West in 2010 where vesting was tied to successful work commitments, 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 1.14. The contractual life of each option granted is ten years. There are no cash settlement alternatives.

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

Non-Employee Plan

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

The fair value of the options is determined using the Black Scholes method as stated in Note 1.14. The contractual life of each option granted ranges from three to seven years. There are no cash settlement alternatives.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

26. Share Based Payments *continued*

Group and Company:	2010 Number	2010 WAEP[1]	2009 Number	2009 WAEP[1]
Outstanding at the beginning of the year	**270,820**	**2.03**	374,685	2.16
Granted during the year	**130,000**	**3.77**	-	-
Lapsed during the year	-	-	(53,865)	3.65
Cancelled during the year	-	-	(50,000)	1.83
Outstanding at the end of the year	**400,820**	**2.54**	270,820	2.03
Exercisable at the end of the year	**320,820**	**2.17**	270,820	2.03

[1]weighted average exercise price

The weighted average remaining contractual life for the share options outstanding as at 31 December 2010 is 6.58 years (2009: 5.00 years). The weighted average fair value of options granted during the year was £3.77 (2009: £nil). The range of exercise prices for options outstanding at the end of the year was £2.87 - £7.22 (2009: £2.87 - £7.22).

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2010 and the year ended 31 December 2009:

	2010 (EMP)	2010 (NEMP)	2009 (EMP)	2009 (NEMP)
Expected volatility %	**61.29**	**61.29**	-	-
Risk-free interest rate %	**3.62**	**3.04**	-	-
Expected life of options (years)	**10**	**3**	-	-
Weighted average share price £	**3.68**	**5.00**	-	-
Model used	**Black Scholes**	**Black Scholes**	Black Scholes	Black Scholes

27. 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.

Categories of financial assets and financial liabilities

	Note	GROUP 2010 £'000	GROUP 2009 £'000
Financial assets as fair value through profit or loss	15	**518**	179
Financial liabilities as fair value through profit or loss	20	**9,034**	-
Financial liabilities measured at amortised cost	21	**(2,158)**	(2,017)
Financial liabilities at fair value through profit or loss	19	**(291)**	(127)

Categories of financial assets and financial liabilities

	Note	COMPANY 2010 £'000	COMPANY 2009 £'000
Financial assets as fair value through profit or loss	15	**408**	171
Financial liabilities as fair value through profit or loss	20	**9,034**	-
Financial liabilities measured at amortised cost	21	**(2,158)**	(2,017)
Financial liabilities at fair value through profit or loss	19	**(90)**	(112)

Interest rate risk

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

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

	GROUP 2010 £'000	GROUP 2009 £'000	COMPANY 2010 £'000	COMPANY 2009 £'000
Floating rate – within one year:				
Financial Assets				
Cash and cash equivalents	**518**	179	**408**	171
Financial Liabilities				
Interest bearing loans & borrowings	**2,158**	2,017	**2,158**	2,017

27. Financial instruments *continued*

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

A one per cent increase/decrease in interest rates on the floating rate would decrease/increase the Group loss by £16,405 (2009: £18,376) and Company loss for the year by £17,495 (2009: £18,459). There is no impact on the Group's and Company's equity.

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

The Group has a Convertible Note denominated in US dollars and has a foreign currency risk exposure to movements between the British pound and US dollar.

A ten per cent movement in the US dollar against the British Pound would increase/decrease the Group and Company loss by £226,247 (2009: £211,056). There is no impact on the Group and Company's equity.

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

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 balance date. In order to meet both overhead and operational cashflow obligations the Group and Company issues additional equity and Convertible Notes for cash, and divests interests in asset licenses in order to fund other areas of the business. Group and Company liabilities are payable on demand.

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.

	2010 Carrying Value £'000	**2010 Fair Value £'000**	2009 Carrying Value £'000	2009 Fair Value £'000
Cash and cash equivalents	**518**	**518**	179	179
Borrowings	**(2,158)**	**(2,158)**	(2,017)	(2,017)
Other loans	**(9,034)**	**(9,034)**	-	-
Trade and other payables	**(270)**	**(270)**	(127)	(127)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

28. Capital commitments

There are no capital commitments outstanding that have not been disclosed in the Balance Sheet.

29. Capital management

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

The Group manages its capital commitments by raising funds through the issuance of ordinary shares in the parent company Zeta Petroleum Limited and divestment of licence interests.

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 2010.

30. Related Party Transactions

On 30 July 2010 Zeta Petroleum Limited issued 69,252 ordinary shares to Prospectuini SA as partial settlement for work completed on the acquisition of 50km2 of 3D seismic over the Bobocu Licence.

The value of this equity transaction was £250,000. There are no outstanding balances owing or guarantees given or received on this transaction.

31. Contingent liabilities

As at 31 December 2010 Rompetrol has lodged a $250,000 claim with Zeta Petroleum (Romania) SRL for costs relating to the Zegujani licence that was relinquished by the Group in July 2009. Zeta Petroleum (Romania) SRL has made a settlement offer of $75,000 in full settlement of any and all share of costs allegedly owing on the Zegujani licence. This settlement offer has been included in Group accounts for 31 December 2010.

Any increase in charges paid above $75,000 will result in a charge to the income statement in future periods.

There is no definite timeline at present for the resolution of this matter.

32. Post balance sheet events

On 25 January 2011 the Group was notified that it was unsuccessful with a bid for oil fields in a divestment process being held in Romania. In accordance with the Bidding and Loan Agreement with Cooper Energy Limited (Note 20) loan funds of EUR 10,540,000 plus bank interest received was repaid to Cooper Energy Limited on 14 February 2011.

Additional funds of £700,000 were received on 28 April 2011 pursuant to the Cooper Energy Limited funding arrangement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

On 30 April 2011 GM Investment & Co Limited and Cresthaven Investments Pty Ltd (the "Selling Shareholders") signed a sale and purchase agreement ("SPA") in respect of their 50.18% shareholding in the Company with Key Petroleum Limited, a public company listed on the Australian Stock Exchange. In accordance with the provisions of the shareholder agreement between the Company and the shareholders of the Company, all the shareholders must sell their shares held in the Company to Key so that 100% of the issued capital of the Company will be purchased by Key Petroleum Limited. The initial purchase consideration payable by Key Petroleum Limited is 318,645,460 new shares to be issued to Company shareholders and optionholders. Further issues of new shares of 292,645,460 and 146,322,730 will be made by Key Petroleum Ltd on the achievement of certain milestones. Completion of the SPA is subject to a number of conditions, including a majority vote in favour of the transaction at a general meeting of Key Petroleum Ltd's shareholders.