Zeta Petroleum plc

Report and Financial Statements
Year Ended 31 December 2011

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GENERAL INFORMATION

Directors	T W Osborne, *Non-Executive Chairman* S P West, *Managing Director* P Crookall, *Chief Operations Officer* C Manifold, *Non-Executive Director*
Company Secretary	B Hodges
Local Agent – Australia	P Lewis
Registered Offices	**United Kingdom** 1 Berkeley Street London W1J 8DJ United Kingdom
	Australia Suite 2, Level 2 28 Kings Park Road West Perth WA 6005 Australia
Company Number	5560854
Auditor	Ernst & Young LLP 1 More London Place London SE1 2AF United Kingdom
Stock Exchange Listing	Australian Securities Exchange Share code: ZTA
Share Registrars	Computershare Investor Services Pty Ltd Level 2, 45 St. Georges Terrace Perth WA 6000, Australia
	Computershare Investor Services plc The Pavilions, Bridgwater Road Bristol BS99 6ZY, United Kingdom
Place of Incorporation	England
Website	www.zetapetroleum.com

CHAIRMAN'S STATEMENT

Dear Shareholder,

Please find herein the annual report and financial statements of the Company for the financial year ended 31 December 2011.

During the year the Company continued to work on its Bobocu gas field and Jimbolia oil field and mature them to drill ready status. The Company is now working towards the drilling of wells on these field in 2012.

In preparation for the upcoming drilling campaign, the Board of Directors resolved to undertake a capital raising and seek admission to the official list of the Australian Securities Exchange ("ASX"). The Company was successfully admitted to the official list of the ASX on 21 May 2012.

I would also like to thank our stakeholders and our management team whose skills and expertise have been critical in advancing the interests of the Company.

I look forward to meeting you at the upcoming Zeta annual general meeting and introducing you to the Zeta board and management team.

Yours faithfully

Timothy Osborne
Chairman

1 June 2012

DIRECTORS AND KEY MANAGEMENT

Board of Directors

Timothy Osborne, *Non-Executive Chairman*

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

Stephen West, *Managing Director*

Mr. West is a founder of Zeta Petroleum plc and a Chartered Accountant with over 17 years of financial and corporate experience ranging from public practice, investment banking, oil & gas and mining. Mr. West holds a Bachelor of Commerce (Double Major, Accounting and Business Law) from Curtin University of Technology. Previous appointments include senior positions at Duesburys Chartered Accountants, PriceWaterhouseCoopers, Barclays Capital and Regal Petroleum plc (UK AIM listed company). Mr. West is currently a non-executive director of ASX listed Apollo Consolidated Limited.

Philip Crookall, *Chief Operating Officer*

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

Cameron Manifold, *Non-Executive Director*

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

Key Management

Bogdan Popescu, *Romanian Country Manager*

Mr. Popescu is an oil industry specialist and NAMR certified expert with extensive international experience. His former appointments include Executive Senior Vice President of The Rompetrol Group, Senior Vice President (Australia) and CEO (Switzerland) of Millennium Group of Companies, various positions at Petroconsultants SA/IHS Energy and Earth Sciences Researcher at the Institute of Geology and Geophysics. Mr. Popescu is currently the elected President of the Petroleum Exploration & Production Managers Forum in Romania.

Helen Prior, *Technical Manager*

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

Ilie Stefan, *Senior Reservoir Engineer*

Mr. Stefan is a qualified Reservoir Engineer and NAMR certified specialist with 20 years experience in conventional and advanced reservoir engineering. Key experiences include a broad range of classical reservoir engineering, production history analysis, field development planning, production monitoring and forecasting work as well as reservoir 3D modelling and reservoir simulation. Previous appointments include positions at IAT Global, Schlumberger Logelco, Halliburton Energy Services, ASCOM Group and SNP Petrom.

Jimmy Micu, *Senior Geologist*

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

REPORT OF THE DIRECTORS

For the year ended 31 December 2011

The directors present their report together with the audited financial statements for the year ended 31 December 2011.

Results and Dividends

The consolidated income statement is set out on page 14 and shows a loss for the year amounting to £1,050,000 (2010 – loss of £3,172,000). The directors do not recommend the payment of a dividend.

Principal Activities and Review of Operations

During 2011 Company's technical team focused on updating the Bobocu geological model so as to incorporate the 2010 3D seismic campaign. As a result of this work the Company has drill ready targets on the Bobocu gas field.

On 30 April 2011 two of the Company's shareholders holding over 50 per cent. of the Company's issued capital signed an agreement with Key Petroleum Limited ("Key") whereby, subject to certain conditions and approvals, Key agreed to acquire 100 per cent. of the issued capital of the Company. Certain conditions were subsequently not met and the agreement was terminated on 30 September 2011.

On 26 August 2011 the Company entered into a farm-out agreement with Cooper Energy Limited ("Cooper Energy"), which replaced an existing share subscription agreement and was conditional upon the transaction with Key completing. After the Key transaction was terminated, the Company gave notice to Cooper Energy that the conditions of the farm-out agreement would not be met and on 17 November 2011 the Company and Cooper Energy signed a letter of termination. The Company now has no strategic alliance with Cooper Energy.

The Company's Board was strengthened by the appointment of Philip Crookall as Chief Operating Officer on 1 October 2011 and the appointment of Michael Scott as Non-Executive Director on 18 October 2011. Rob Gherghetta resigned as a Non-Executive Director on 31 December 2011. Post year end Michael Scott resigned as a Non-Executive Director on 24 May 2012 and Mr. Cameron Manifold was appointed as Non-Executive Director on 1 June 2012.

On 4 October 2011 the Company appointed Pursuit Capital, a Perth based corporate advisor, as advisor to an Initial Public Offering ("IPO") on the Australian Securities Exchange where the Company intended to raise funds of up to AU$8 million with the proceeds being applied towards the drilling of wells on the 100 per cent. owned Bobocu gas field, new ventures and working capital.

In anticipation of the IPO, on 17 November 2011 the Company revised its capital structure by undertaking a bonus share issue of 51,716,000 new ordinary shares to existing shareholders in proportion with their existing shareholding, representing approximately 15 new ordinary shares for every one share held.

Following a General Meeting held on 17 November 2011, an application was lodged with Companies House to re-register the Company from a private company to a public company. The Company was notified on 6 December that it was successfully re-registered as a public company and its name changed to Zeta Petroleum plc.

On 19 October 2011 the Company launched a pre-IPO fundraising to raise new funds of AU$1 million (with possible over-subscriptions to AU$1.5 million). The pre-IPO fundraising closed on 16 December 2011 with subscriptions of AU$1,400,000 (£901,490) received and on 21 December 2011 14,000,000 new ordinary shares were allotted.

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

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 exploration, development and production of natural oil and gas 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.

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 2011 are set out in Note 22 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 2011 for the Company was 39.16 days (2010: 41.14 days).

Going Concern

The financial statements have been prepared on a Going Concern basis. As at 31 December 2011 the Group had available funds totalling £238,000, a net current liability position of £1,886,000 and a deficit on shareholder's funds of £1,576,000.

On 21 May 2012 the Company successfully completed an initial public offering ("IPO") of the Company's ordinary shares on the Australian Securities Exchange raising AU$8.35 million (£5.19 million). The funds will be used to meet work program commitments on its existing asset portfolio, finance the acquisition of new assets and meet working capital commitments.

On 14 May 2012 the entire balance of the fully drawn US$3.2 million convertible loan from GM Investment Limited was settled through conversion into 18,136,291 fully paid ordinary shares at a conversion price of AU$0.20 per share and a cash payment of AU$88,675 (£55,652). At the date of conversion the entire balance

of the loan was US$3,717,048 comprising of US$3,200,000 (£1,990,720) principal and US$517,048 (£321,656) interest. The cash payment component was converted into Australian dollars at the prevailing exchange rate at the date of conversion.

In the event that gas is not encountered in the well to be drilled on the Bobocu licence during Q3 2012 the Company will seek to reduce overheads, farm out interests in and/or realise its existing assets. The Directors recognise the inherent uncertainty in the industry in which it operates, however in the event of an unsuccessful well being drilled at Bobocu the Directors believe that the Company has sufficient funds available to meet its current obligations and taking into consideration the alternatives available to it described above, provide reasonable expectation that the Company can continue in operational existence for the foreseeable future. Accordingly 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 annual financial statements.

Financial instruments

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

Directors and Directors' Interests

	Date appointed	*Date resigned*
C Manifold	1 June 2012	–
M Scott	18 October 2011	24 May 2012
P Crookall	24 September 2010	–
T W Osborne	31 March 2006	–
S P West	12 September 2005	–
R Gherghetta	8 February 2010	31 December 2011

The directors who held office at 31 December 2011 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*
M Scott[1]	Ordinary	–	250,000
P Crookall[2]	Ordinary	–	287,328
T W Osborne	Ordinary	–	–
S P West[3]	Ordinary	433,338	7,684,015

Notes:

1 M Scott's shares are held by Scott Investment Fund Pty Ltd, a company in which M Scott has an indirect beneficial interest. These shares were acquired through the pre-IPO fundraising in consideration for cash.

2 P Crookall's share were acquired as follows: 137,328 shares as part consideration for the cancellation of options in Zeta Petroleum Limited, and 150,000 shares through the pre-IPO fundraising in consideration for cash.

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.

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 cancelled during the year*	*Number of options at the end of the year*
P Crookall			
24.09.10	10,000	10,000	–
24.09.10	10,000	10,000	–
	20,000	20,000	–
S P West			
29.03.06	50,000	50,000	–
29.03.06	50,000	50,000	–
26.03.10	15,000	15,000	–
26.03.10	15,000	15,000	–
	130,000	130,000	–

Substantial Shareholders

The following parties had interests of greater than 3 per cent. of the issued share capital of the Company at 31 December 2011:

	Number of shares	*% of issued ordinary share capital*
GM Investment & Co Limited	19,543,360	27.58
Mr. S Pagel	8,094,375	11.42
Cresthaven Investments Pty Ltd[1]	7,684,015	10.84
Cooper Energy Limited	9,455,488	13.34
WCI Overseas Oil & Gas LLC	3,062,420	4.32
Banque Heritage	7,000,000	9.88

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

The following parties had interests of greater than 3 per cent. of the issued share capital of the Company at 23 May 2012:

	Number of shares	*% of issued ordinary share capital*
GM Investment & Co Limited	43,385,139	33.18
Mr. David Scanlen	10,000,000	7.65
Mr. S Pagel	9,094,375	6.96
Cresthaven Investments Pty Ltd[1]	8,084,015	6.18
Banque Heritage	7,000,000	5.35

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

Key Performance Indicators

The Company during 2011 continued to meet all work requirements on existing licences and also ensured that the Company and Group maintained enough cash reserves to finance operational and working capital commitments through the issue of new ordinary shares in the Company.

Political and Charitable Contributions

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

Corporate Governance Statement

The Company's Corporate Governance Statement can be found on page 48 of this Annual Report.

By order of the Board

S P West
Director

1 Berkeley Street
London W1J 8DJ
United Kingdom

1 June 2012

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.

Under Company Law the directors must not approve the consolidated and company financial statements unless they are satisfied that they present fairly the financial position of Group and Company, financial performance and cash flows of the Group and Company for that 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 adequate accounting records that are sufficient to show and explain the Group and Company's transactions and 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 Company hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2. 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.

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 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity and the Consolidated and Company Cash Flow Statements and the related notes 1 to 30. 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 11, 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 2011 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.

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.

Paul Wallek
Senior Statutory Auditor
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

1 June 2012

Notes:

1. The maintenance and integrity of the Zeta Petroleum plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement
For the year ended 31 December 2011

	Note	***2011***	*Restated 2010*
		£'000	*£'000*
Continuing operations			
Revenue		**–**	14
Gross Profit		**–**	14
Exploration and evaluation expenses		**(109)**	(1,165)
Administrative expenses	26	**(1,542)**	(1,353)
Gain on disposal of interest in licences		**–**	150
Operating loss		**(1,651)**	(2,354)
Changes in fair value of the financial liability	20	**794**	(704)
Interest income		**–**	3
Financing costs	5	**(193)**	(151)
Loss before Taxation from continuing operations		**(1,050)**	(3,206)
Income tax	9	**–**	–
Loss for the year from continuing operations		**(1,050)**	(3,206)
Profit after tax from discontinued operations	10	**–**	34
Loss for the year attributable to the equity holders		**(1,050)**	(3,172)
Loss per ordinary share – basic and diluted	11	**(1.88p)**	(5.79p)
Loss per ordinary share from continuing operations – basic and diluted	11	**(1.88p)**	(5.79p)

Consolidated Statement of Comprehensive Income
As at 31 December 2011

	Note	***2011***	*Restated* *2010*
		£'000	*£'000*
Loss for the year		**(1,050)**	(3,172)
Other comprehensive income:			
Exchange differences on translation of foreign operations		**132**	157
Total comprehensive loss for the year		**(918)**	(3,015)

Consolidated Balance Sheet
As at 31 December 2011

	Note	**2011**	*Restated 2010*	*Restated 1 January 2010*
		£'000	*£'000*	*£'000*
ASSETS				
Non-current assets				
Intangible assets	12	**379**	416	496
Property, plant & equipment	13	**9**	7	9
		388	423	505
Current assets				
Trade receivables	16	**597**	131	17
Prepayments and accrued income		**181**	15	5
Cash and cash equivalents	15	**238**	518	179
Other receivables		**–**	–	25
Other assets	17	**–**	9,034	–
		1,016	9,698	226
Total assets		**1,404**	10,121	731
EQUITY AND LIABILITIES				
Equity attributable to equity holders				
Issued capital	22	**71**	3	3
Share premium	23	**1,773**	7,971	6,008
Share based payments reserve	24	**–**	1,054	782
Foreign currency translation reserve		**263**	131	(26)
Retained losses		**(3,683)**	(11,571)	(8,399)
Total equity		**(1,576)**	(2,412)	(1,632)
Non-current liabilities				
Provisions	21	**78**	123	41
Interest-bearing loans & borrowings	20	**–**	2,311	2,047
Financial liability	20	**–**	822	118
		78	3,256	2,206
Current liabilities				
Trade and other payables	18	**367**	243	157
Other loans	19	**–**	9,034	–
Interest-bearing loans & borrowings	20	**2,507**	–	–
Financial liability	20	**28**	–	–
		2,902	9,277	157
Total liabilities		**2,980**	12,533	2,363
Total equity and liabilities		**1,404**	10,121	731

Stephen West
Director
1 June 2012

Company Balance Sheet
As at 31 December 2011

	Note	**2011**	Restated 2010	Restated 1 January 2010
		£'000	*£'000*	*£'000*
ASSETS				
Non-current assets				
Property, plant & equipment	13	**3**	–	6
Investment in subsidiary	14	**1**	1	1
Amounts receivable from subsidiary undertaking		**4,541**	3,832	2,719
		4,545	3,833	2,726
Current assets				
Trade receivables	16	**121**	6	6
Prepayments and accrued income		**181**	14	4
Cash and cash equivalents	15	**233**	408	171
Other assets	17	**–**	9,034	–
		535	9,462	181
Total assets		**5,080**	13,295	2,907
EQUITY AND LIABILITIES				
Equity attributable to equity holders				
Issued capital	22	**71**	3	3
Share premium	23	**1,773**	7,971	6,008
Share based payments reserve	24	**–**	1,054	782
Retained profits/(losses)		**343**	(8,064)	(6,204)
Total equity		**2,187**	964	589
Non-current liabilities				
Provisions	21	**78**	75	41
Interest-bearing loans & borrowings	20	**–**	2,311	2,047
Financial liability	20	**–**	822	118
		78	3,208	2,206
Current liabilities				
Trade and other payables	18	**280**	89	112
Other loans	19	**–**	9,034	–
Interest-bearing loans & borrowings	20	**2,507**	–	–
Financial liability	20	**28**	–	–
		2,815	9,123	112
Total liabilities		**2,893**	12,331	2,318
Total equity and liabilities		**5,080**	13,295	2,907

Stephen West
Director
1 June 2012

Consolidated Statement of Changes in Equity
For the year ended 31 December 2011

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

Consolidated Statement of Changes in Equity
For the year ended 31 December 2010

	Issued Capital £'000	*Share Premium £'000*	*Share Based Payments Reserve £'000*	*Foreign Currency Translation Reserve £'000*	*restated Retained Losses £'000*	*Total £'000*
As at 1 January 2010, restated	3	6,008	782	(26)	(8,399)	(1,632)
Loss for the year	–	–	–	–	(3,172)	(3,172)
Other comprehensive income	–	–	–	157	–	157
Total comprehensive income	–	–	–	157	(3,172)	(3,015)
Issue of Share Capital	–	1,963	–	–	–	1,963
Share based payments	–	–	272	–	–	272
As at 31 December 2010	3	7,971	1,054	131	(11,571)	(2,412)

Company Statement of Changes in Equity
For the year ended 31 December 2011

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

Company Statement of Changes in Equity
For the year ended 31 December 2010

	Issued Capital £'000	*Share Premium £'000*	*Share Based Payments Reserve £'000*	*restated Retained Losses £'000*	*Total £'000*
As at 1 January 2010	3	6,008	782	(6,204)	589
Loss for the year	–	–	–	(1,860)	(1,860)
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	(1,860)	(1,860)
Issue of Share Capital	–	1,963	–	–	1,963
Share based payments	–	–	272	–	272
As at 31 December 2010	3	7,971	1,054	(8,064)	964

Consolidated Cash Flow Statement
For the year ended 31 December 2011

	Note	**2011**	Restated 2010
		£'000	£'000
Operating activities			
Loss before tax from continuing operations		**(1,050)**	(3,172)
Profit before tax for the year from discontinued operations		**–**	34
Loss after tax		**(1,050)**	(3,206)
Adjustment to reconcile loss to net cash outflow from operating activities:			
Interest on income tax provision		**3**	4
Depreciation	13	**4**	9
Amortisation	12	**25**	26
Borrowing costs amortised		**25**	(21)
Share based payments	25	**143**	325
Interest on loans		**116**	200
Foreign exchange loss		**151**	247
Changes in fair value of the financial instrument	20	**(794)**	704
Interest income		**–**	(3)
Gain on disposal of interest in licences		**–**	(150)
Working capital adjustments:			
Increase in receivables		**(466)**	(114)
Increase in prepayments and accrued income		**(166)**	(10)
Decrease in other receivables		**–**	25
Increase in trade and other payables		**278**	86
(Decrease)/increase in provisions		**(45)**	82
Net cash outflow from operating activities		**(1,776)**	(1,796)
Investing activities			
Purchase of property, plant and equipment	13	**(6)**	(7)
Interest income		**–**	3
Licence sale proceeds		**–**	176
Net cash (outflow)/inflow from investing activities		**(6)**	172
Financing activities			
Payment to option holders on cancellation of share options		**(41)**	–
Proceeds from share issue		**1,543**	1,963
Net cash inflow from financing activities		**1,502**	1,963
Net (decrease)/increase in cash and cash equivalents		**(280)**	339
Cash and cash equivalents at the beginning of the year	15	**518**	179
Cash and cash equivalents at the end of the year	15	**238**	518

Company Cash Flow Statement
For the year ended 31 December 2011

	Note	***2011***	*2010*
		£'000	*£'000*
Operating activities			
Loss after tax from continuing operations		**(531)**	(1,826)
Profit after tax for the year from discontinued operations		**–**	34
Loss after tax		**(531)**	(1,860)
Adjustments to reconcile loss to net cash outflow from operating activities			
Interest on income tax provision		**3**	4
Depreciation	13	**1**	6
Borrowing costs amortised		**25**	(21)
Share based payments	25	**143**	325
Interest on convertible loan		**116**	200
Expenses recharged		**(144)**	(138)
Foreign exchange loss		**53**	59
Changes in fair value of financial instrument		**(794)**	704
Interest income		**–**	(3)
Working capital adjustments:			
Increase in trade receivables		**(115)**	–
Increase in prepayments and accrued income		**(167)**	(10)
Decrease/(increase) in trade and other payables		**191**	(23)
Net cash outflow from operating activities		**(989)**	(757)
Investing activities			
Interest income		**–**	3
Purchase of property, plant & equipment	13	**(4)**	–
Repayment of loans		**(684)**	(972)
Net cash outflow from investing activities		**(688)**	(969)
Financing activities			
Payment to option holders on cancellation of share options		**(41)**	–
Proceeds from share issue		**1,543**	1,963
Net cash inflow from financing activities		**1,502**	1,963
Net (Decrease)/Increase in cash and cash equivalents		**(175)**	237
Cash and cash equivalents at the beginning of the year	15	**408**	171
Cash and cash equivalents at the end of the year	15	**233**	408

Notes to the Financial Statements
For the year ended 31 December 2011

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.

Zeta Petroleum was previously a private company (Zeta Petroleum Limited). Following a General Meeting held on 17 November 2011, an application was lodged with Companies House to re-register the Company from a private company to a public company. The Company was notified on 6 December that it was successfully re-registered as a public company and its name changed to Zeta Petroleum plc.

The Group's consolidated financial statements for the year ended 31 December 2011 were authorised for issue by the board of directors on 01 June 2012 and the balance sheets were signed on the Board's behalf by S P West.

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

The principal accounting policies adopted by the Group set out below are consistently applied to all the periods presented, except for the following restatements:

- In 2010, £150,000 gain on sale of 50 per cent. of Jimbolia was included in Gross Profit. This gain is required to be disclosed in a separate line classified as gain on disposal of assets.
- A £3,000 Corporation Tax charge in 2010 which was a provision for interest relating to judgements made on taxation of the Company's interest income for the years 2006 through 2010 has been transferred from income tax expense to income finance expense.
- £49,000 of expenses relating to the issue of new equity in 2010 disclosed as a finance expense has been reclassified as an exploration and evaluation expense due to the nature of these costs being services received and not directly related to the raising of new equity.
- In order to record the fair value of the financial instrument associated with the GM Investment convertible loan, restatements as at 1 January 2010 and 31 December 2010 were made. As of 1 January 2010 a financial instrument liability of £118,000 was recorded against retained earnings and the equity portion of the convertible loan totalling £30,000 was reversed. As at 31 December 2010 the financial instrument's fair value was adjusted through the profit and loss account for £704,000 and the remaining equity portion of £124,000 was reversed.

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. The Group assesses each asset or cash generating unit (CGU) (excluding goodwill, which is assessed annually regardless of indicators) 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 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 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. As of 31 December 2011 and 2010, the Group have not recognised any oil and gas assets. The carrying values of the Group's licences as at 31 December 2011 were: Bobocu £350,787 (2010: £385,429); Jimbolia £22,505 (2010: £24,703) and Padureni £5,626 (2010: £6,176), to which no impairment was recorded.

(b) *Impairment of non-current non-financial assets*

The Group assesses, at the end of each reporting period, whether there are indications of impairment on its intangible assets. If such indication exists, impairment testing is performed except for goodwill which is tested on an annual basis. This requires an estimation of the value in use of the CGUs to which the assets belong. Estimating value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As of 31 December 2011 and 2010, the Group's intangible assets amounting to £379k and £416k, respectively, are not impaired.

(c) *Classification of financial instruments*

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

Classifications of financial instruments are further discussed in Note 27.

(d) *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.

The company is included in a variety of disputes in the normal course of business and must assess whether it is probable that economic outflows will results from such disputes.

1.3 ***Basis of preparation***

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

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

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

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

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

IFRS 9 Financial Instruments: Classification and Measurement

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

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

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

IFRS 10, IFRS 11, and IFRS 12

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

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

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

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

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

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

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

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

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

IFRS 13 Fair Value Measurement

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

1.5 ***Going concern***

The financial statements have been prepared on a Going Concern basis. As at 31 December 2011 the Group had available funds totalling £238,000, a net current liability position of £1,886,000 and a deficit on shareholder's funds of £1,576,000.

On 21 May 2012 the Company successfully completed an initial public offering ("IPO") of the Company's ordinary shares on the Australian Securities Exchange raising AU$8.35 million (£5.19 million). The funds will be used to meet work program commitments on its existing asset portfolio, finance the acquisition of new assets and meet working capital commitments.

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

In the event that gas is not encountered in the well to be drilled on the Bobocu licence during Q3 2012 the Company will seek to reduce overheads, farm out interests in and/or realise its existing assets.

The Directors recognise the inherent uncertainty in the industry in which it operates, however in the event of an unsuccessful well being drilled at Bobocu the Directors believe that the Company has sufficient funds available to meet its current obligations and taking into consideration the alternatives available to it described above, provide reasonable expectation that the Company can continue in operational existence for the foreseeable future. Accordingly 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 annual financial statements.

1.6 ***Basis of consolidation***

The consolidated financial statements comprise the financial statements of Zeta and its subsidiaries as at 31 December 2011. 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 2011 was £531,000 (2010: £1,860,000).

1.7 ***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.

1.8 ***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 recognised in equity.

The Directors will review the appropriateness of British pounds as the functional currency for the parent company and the presentation currency for the consolidated financial statements for future years in light of the Australian dollars (AUD).fund raising in 2012.

1.9 ***Intangible Assets***

Oil and gas exploration assets

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

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

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

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

Following appraisal of successful exploration wells, if commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalised exploration costs are transferred into a single field cost centre within development/producing assets after testing for impairment. Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs are written off to the Income Statement.

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

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

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

Software costs

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

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

1.10 *Property, plant and equipment*

Property, plant and equipment 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: 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.

1.11 *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.

1.12 ***Financial instruments***

Financial assets

On initial recognition, the Group classifies its financial assets as loans and receivables. Financial assets include cash and cash equivalents, trade and other receivables, amounts receivable from subsidiary and other assets. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those financial assets and liabilities at fair value through profit or loss, includes transaction costs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This category includes cash and cash equivalents, trade and receivables, amounts receivable from subsidiary undertaking and other assets.

Impairment of Financial Assets

The Group assesses at each end of reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

Loans and receivables

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of loss is recognized in the statement of income.

Financial liabilities

On initial recognition, the Group classifies its financial liabilities into financial liabilities at fair value through profit or loss; or financial liabilities measured at amortised cost. Financial liabilities include trade and other payables, convertible note, financial liability and other loans.

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Derivatives, other than those designated as effective hedging instruments, are classified as held for trading and are included in this category. These liabilities are carried on the balance sheet at fair value with gains and losses recognised in the statement of income.

Financial liabilities measured at amortised cost

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the amortization process. This category includes trade and other payables and other loans.

1.13 ***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.

1.14 ***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.

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 outside profit or loss, in which case the deferred tax is also dealt with in 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.

1.15 ***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.

1.16 ***Interest Income***

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

1.17 ***Share issue expenses and share premium account***

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

1.18 ***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.

1.19 ***Statement of compliance with the Corporations Act 2011 (Australia)***

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.

2. Restatement of prior year comparatives

In accordance with the financial reporting requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the comparative financial statements of the Group as of and for the year ended 31 December 2010 and 1 January 2010 were restated to reflect the following adjustments:

		As previously reported, 31 December 2009 £'000	*Net restatements £'000*	*As restated, 31 December 2009 £'000*
Balance sheet				
Borrowing cost on convertible loan	a	30	(30)	–
Financial liability	b	–	(118)	(118)
Other reserves	c	(30)	30	–
Retained earnings	d	8,281	118	8,399

		As previously reported, 31 December 2010 £'000	*Net restatements £'000*	*As restated, 31 December 2010 £'000*
Balance sheet				
Borrowing cost on convertible loan	a	124	(124)	–
Financial liability	b	–	(704)	(704)
Other reserves	c	(124)	124	–

		As previously reported, 31 December 2010 £'000	*Net restatements £'000*	*As restated, 31 December 2010 £'000*
Profit and loss				
Changes in fair value of the financial liability	e	–	704	704
Gross profit	f	164	(150)	14
Gain on disposal of assets	f	–	150	150
Administrative expense	g	(1,350)	(3)	(1,353)
Income tax expense	g	(3)	3	–
Exploration and evaluation expense	h	(1,116)	(49)	(1,165)

Notes:

a. Borrowing cost on convertible loan – Restatements, amounting to £123,612 and £30,499 as at 31 December 2010 and 2009, respectively, were made to remove this account which represents the foreign exchange effect on the equity component of the convertible loan.

b. Financial liability – Restatements, amounting to £703,000 and £118,000, pertains to the recognition of the financial liability attached to the convertible note at fair value as of as at 31 December 2010 and 1 January 2009, respectively.

c. Other reserves – Restatements, amounting to £123,612 and £30,499 as at 31 December 2010 and 2009, respectively, were made as this account represents the equity component of the convertible loan.

d. Retained earnings – Restatement of £118,000 pertains to the recognition of the fair value as of 1 January 2009 of the financial liability attached to the convertible note.

e. Changes in fair value of the financial liability – Restatement of £703,000 pertains to the recognition of the fair value of the financial liability attached to the convertible note as of 31 December 2010.

f. Gross profit and Gain on disposal of assets – 2010 restatement of £150,000 on the sale of 50 per cent. of the Jimbolia licence included in Gross Profit has been transferred to Gain on Disposal of assets.

g. Administrative expense and income tax expense – 2010 restatement of £3,000 interest and penalties on Corporation Tax has been transferred from income tax expense to administrative expense expenses.

h. Finance cost and exploration and evaluation expense – 2010 restatement £49,000 relating to the issue of new equity has been transferred from Finance costs to exploration and evaluation expenses

3. Segment information

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

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 2011:

	2011	*2010*
	£'000	*£'000*
Segment assets		
United Kingdom	**539**	9,462
Romania	**865**	659
	1,404	10,121

		restated
	2011	*2010*
	£'000	*£'000*
Capital expenditure		
United Kingdom	**4**	–
Turkey	**–**	(34)
Romania	**113**	1,172
	117	1,138

Capital expenditure consists of the purchase of property, plant and equipment (p,p & e) and Exploration & Evaluation expenditure as recorded in the Consolidated Profit and Loss Statement.

Capital expenditure analysis

	Purchase of p, p & e	*Exploration & Evaluation*	*Total 2011*
2011			
United Kingdom	**4**	**–**	**4**
Turkey	**–**	**–**	**–**
Romania	**2**	**111**	**113**
	6	**111**	**117**
2010			
United Kingdom	–	–	–
Turkey	–	(34)	(34)
Romania	7	1,165	1,172
	7	1,131	1,138

4. Operating loss

	Group		*Company*	
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Operating loss is stated after charging:				
Amortisation (note 12)	**25**	26	**–**	–
Depreciation (note 13)	**4**	9	**1**	6
Net foreign exchange differences	**158**	251	**125**	206

5. Financing Costs

	Group		*Company*	
		restated		*restated*
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Interest payable on loans	**116**	151	**116**	151
Other financing costs	**77**	–	**77**	–
Total financing costs	**193**	151	**193**	151

6. Auditors' remuneration

	Group		*Company*	
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Audit services				
Fees payable to the company's auditors for the audit of the Group's consolidated accounts	**46**	28	**46**	28
Non-audit services				
Fees payable to the company's auditors for other services:				
Other services pursuant to legislation	**70**	–	**70**	–
Other services relating to corporate finance transactions	**7**	–	**7**	–
	123	28	**123**	28

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

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

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

7. Employment costs

	Group		*Company*	
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Wages and salaries	**626**	489	**439**	334
Social security costs	**16**	18	**16**	18
Share based payments arising from equity-settled share based payment transactions	**142**	283	**142**	283
	784	790	**597**	635

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

	Group		*Company*	
	2011	*2010*	***2011***	*2010*
Management	**2**	2	**1**	1
Administration	**5**	3	**1**	1
	7	5	**2**	2

8. Remuneration of Directors

	2011	*2010*
	£'000	*£'000*
Group and Company		
Basic salary and fees	**205**	138
Share based payments	**86**	183
	291	321
M. Scott – Total Emoluments	**1**	–
P. Crookall – Total Emoluments	**102**	19
R. Gherghetta – Total Emoluments	**38**	59
S. West – Total Emoluments	**150**	237
P. Williams – Total Emoluments	**–**	6

Details of interests in share options for each director are set out in the Directors Report on page 6.

9. Taxation

	2011	*2010*
	£'000	*£'000*
Current income tax		
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:

		restated
	2011	*2010*
	£'000	*£'000*
Accounting loss before tax	**(1,050)**	(3,172)
Expected tax credit at standard UK effective corporation tax of 26.5 per cent. (2010 – 28%)	**(278)**	(888)
Disallowed expenses	**88**	7
Share options issued	**38**	91
Unrecognised temporary differences on licenses and exploration costs	**36**	332
Effect of lower tax rates in Romania	**37**	19
Unrecognised tax losses	**79**	439
Tax charge for the year	**–**	–

The Group has tax losses arising in the UK of £6,890,182 (2010: £6,282,574) 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 £1,016,974 (2010: £661,540) 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	–
Due to expire in 2 years	£14,052
Due to expire in 3 years	£130,436
Due to expire in 4 years	£169,534
Due to expire in 5 years	£189,774
Due to expire in 6 years	£157,744
Due to expire in 7 years	£355,434

The Group has non-trading losses carried forward in the UK of £28,134 (2010: £821,897) that are available indefinitely for offset against future non-trading profits of the companies in which these losses arose.

At year end the company had an unrecognised deferred tax asset of nil (2010: £462,656) arising from share based payments. The asset was nil at the year end because the company had cancelled all the share options during the year.

Deferred tax assets of £3,945 (2010: £6,267) arising from deferred capital allowances, £417,116 (2010: £351,154) in respect of exploration costs and £46,854 (2010: £42,853) 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.

10. Discontinued operations

In 2010 there was £34,000 recognised in the consolidated profit and loss statement relating to the reversal of an accrual relating to the Turkish licences which were discontinued in 2009. There were no discontinued operations during 2011.

11. Loss per share

	2011	*2010*
	£'000	*£'000*
Loss for the year from continuing operations	**(1,050)**	(3,206)
Profit/(loss) after tax from discontinued operations	**–**	34
Loss for the year attributable to the equity holders	**(1,050)**	(3,172)

Basic and diluted loss per share is calculated on the loss for the year attributable to equity holders of the parent of £1,050,000 (2010: £3,172,000) and divided by the weighted average of 55,732,271 (2010: 54,804,741) 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 25.

The bonus issue of 51,716,000 bonus shares on 17 November 2011 is deemed to have taken place on 1 January 2010 for earnings per share calculation purposes. The 2010 weighted average number of ordinary shares (above) and loss per ordinary share in the Consolidated Profit and Loss Statement have been restated.

12. Intangible assets

	Licence Acquisition Costs £'000	*Software Costs £'000*	*Total £'000*
GROUP			
Cost:			
As at 1 January 2010	735	25	760
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 year (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
Cost:			
As at 1 January 2011	**664**	**25**	**689**
Effect of movement in foreign exchange	**(21)**	**–**	**(21)**
At 31 December 2011	**643**	**25**	**668**
Amortisation:			
As at 1 January 2011	**(248)**	**(25)**	**(273)**
Provided in the year (see note 4)	**(25)**	**–**	**(25)**
Effect of movement in foreign exchange	**9**	**–**	**9**
At 31 December 2011	**(264)**	**(25)**	**(289)**
Net book value at 31 December 2011	**379**	**–**	**379**

Acquisition of the Bobocu licence, Romania

On 15 January 2007 Zeta Petroleum (Romania) SRL ("ZPR") 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 2011 is £350,787. As at 31 December 2011 ZPR held in addition to Bobocu, interests in the following additional Romanian licences Jimbolia (50 per cent.), Padureni (12.5 per cent.).

As of 31 December 2011 and 2010, the Company has fully amortised intangible assets still used in operations with a total cost of £24,000.

13. Property, plant and equipment

	Group		*Company*	
	2011 £'000	*2010 £'000*	***2011 £'000***	*2010 £'000*
Cost:				
As at start of year	**54**	47	**39**	39
Additions	**6**	7	**4**	–
Disposals	**(3)**	–	**(3)**	–
As at end of year	**57**	54	**40**	39

	Group		Company	
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Depreciation:				
As at start of year	**(47)**	(38)	**(39)**	(33)
Provided in the year (see note 4)	**(4)**	(9)	**(1)**	(6)
Disposals	**3**	–	**3**	–
As at end of year	**(48)**	(47)	**(37)**	(39)
Net book value at start of year	**7**	9	**–**	6
Net book value at end of year	**9**	7	**3**	–

14. Investment in subsidiaries

	Company	
	2011	*2010*
	£'000	*£'000*
Cost:		
As at start of year	**1**	1
As at end of year	**1**	1

The Company's only directly held subsidiary is Zeta Petroleum (Romania) SRL, a Romanian incorporated company in which the Company holds 100 per cent. of the entire issued capital. The principal activity of Zeta Petroleum (Romania) SRL is exploration 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.

15. Cash and cash equivalents

	Group		Company	
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Cash at bank and on hand	**238**	518	**233**	408
As at end of year	**238**	518	**233**	408

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 £238,000 (2010: £518,000) and £233,000 (2010: £408,000) 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.

16. Trade receivables

	Group		Company	
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
VAT receivables	**169**	62	**12**	4
Other receivables	**428**	69	**109**	2
As at end of year	**597**	131	**121**	6

17. Other assets

	Group		Company	
	2011	*2010*	***2011***	*2010*
	£'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 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.

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 loan funds of EUR 10,540,000 plus bank interest received was repaid to Cooper Energy Limited on 14 February 2011.

18. Trade and other payables

	Group		Company	
		restated		*restated*
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Trade payables	**200**	207	**201**	54
Other taxes and social security costs	**9**	8	**9**	7
Accruals	**158**	28	**70**	28
As at end of year	**367**	243	**280**	89

19. Other loans

	Group		Company	
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Loans from third parties	**–**	9,034	**–**	9,034

Refer to note 17 for nature and timing of loan.

20. Interest-bearing loans & borrowings and financial liability

	Group		Company	
		restated		*restated*
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Convertible Note				
Non-current	**–**	2,311	**–**	2,311
Current	**2,057**	–	**2,057**	–
Financial liability				
Non-current	**–**	822	**–**	822
Current	**28**	–	**28**	–

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 per cent. Drawn down amounts and interest are repayable when the facility expires on 31 August 2012. On 14 May 2012 the entire balance of the fully drawn US$3.2 million convertible loan from GM Investment Limited was settled through conversion into 18,136,291 fully paid ordinary shares at a conversion price of AU$0.20 per share and a cash payment of AU$88,675 (£55,652). At the date of conversion the entire balance of the loan was US$3,717,048 comprising of US$3,200,000 (£1,990,720) principle and US$517,048 (£321,656) interest. The cash payment component was converted into Australian dollars at the prevailing exchange rate at the date of conversion.

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

The Convertible Loan restatement details can be found in Note 2.

21. 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 interest income for 2006 through 2011. The uncertainty is caused by the Company's position towards the offsetting of other losses against interest income received. The provision consists of possible corporations tax payable on interest income as well as interest and penalties that may be imposed by HMRC should HMRC disagree with the Company's position.

	Group		*Company*	
		restated		
	2011	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Corporation Tax				
As at start of year	**75**	71	**75**	71
Arising during the year	**3**	4	**3**	4
As at end of year – Corporation tax	**78**	75	**78**	75
Provision for third party payments				
As at start of year	**48**	–	**–**	–
Arising during the year	**33**	48	**–**	–
Transfer to accrued expenses	**(81)**	–	**–**	–
As at end of year – provision for third party payments	**–**	48	**–**	–
Total provisions	**78**	123	**78**	75

The 2010 provision for third party payments relates to a claim Rompetrol lodged with Zeta Petroleum (Romania) SRL for costs relating to the Zegujani licence. This claim was settled for $125,000 USD and the provision was transferred to accrued expenses in 2011 (Refer to note 30).

22. Share capital

	_2011_	**_2011_**	_2010_	_2010_
	Number	**_£'000_**	_Number_	_£'000_
Group and Company				
Authorised:				
Ordinary shares of £0.001 each	**–**	**–**	8,000,000	8
Allotted, issued and fully paid				
As at start of year	**3,260,209**	**3**	2,735,299	3
Issue of new shares:			524,910	
Allotment 19 January 2011[i]	**12,500**	**–**	–	–
Allotment 11 May 2011[ii]	**175,000**	**–**	–	–
Bonus Issue 17 November 2011[iii]	**51,716,000**	**52**	–	–
Allotment 17 November 2011[iv]	**1,700,000**	**2**	–	–
Allotment 21 December 2011[v]	**14,000,000**	**14**	–	–
As at end of year	**70,863,709**	**71**	3,260,209	3

Notes:

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

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

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

iv Allotment 17 November 2011: 1,700,000 shares with a nominal value of £0.001 were issued at an issue price of £0.128 (AU$0.20) per share. These shares were issued in part consideration for the cancellation of share options and did not involve a cash payment.

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

23. Share premium

	_2011_	_2010_
	_£'000_	_£'000_
Group and Company		
As at start of year	**7,971**	6,008
Arising on shares issued	**1,637**	1,963
Share issue from cancellation of options	**217**	–
Transfer to share capital	**(52)**	–
Transfer to retained profits	**(8,000)**	–
As at end of year	**1,773**	7,971

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

24. Share-Based Payment Reserve

	2011	*2010*
	£'000	*£'000*
Group and Company		
As at start of year	**1,054**	665
Charge for the year	**(14)**	389
Less: write-back of employee share options lapsed	**(156)**	–
Less: share options cancelled	**(884)**	–
As at end of year	**–**	1,054

25. Share-Based Payments

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

	2011	*2010*
	£'000	*£'000*
Group and Company:		
Expense arising from equity-settled share-based payment transactions	**143**	325
Expense arising from cash-settled share-based payment transactions	**–**	–
Total expense arising from share-based payment transactions	**143**	325

The share-based payment plans are described below.

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

In consideration for cancellation options holders received a combination of cash and shares. A total of £41,000 was paid in cash and 1,700,000 shares granted with nominal value of £0.001 at £2.06 per share.

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

Employee Plan

Under the Employee Plan ("EMP") share options are granted to directors and employees at the complete discretion of the Company. The exercise price of the options is determined by the Company at the date of the grant. With the exception of options granted to Stephen West in 2010 where vesting was tied to successful work commitments, fifty per cent. (50 per cent.) of the options granted vest after twelve months and fifty per cent. (50 per cent.) vest after eighteen months.

The fair value of the options is determined using the Black Scholes method as stated in Note 1.13. 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 1.13. The contractual life of each option granted ranges from three to seven years. There are no cash settlement alternatives. Volatility was determined by calculating the volatility for four 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.

	2011 Number	***2011 WAEP[1]***	*2010 Number*	*2010 WAEP[1]*
Group and Company				
Outstanding at the beginning of the year	**400,820**	**2.54**	270,820	2.03
Granted during the year	**–**	**–**	130,000	3.77
Lapsed during the year	**(123,429)**	**1.27**	–	–
Cancelled during the year	**(277,391)**	**3.10**	–	–
Outstanding at the end of the year	**–**	**–**	400,820	2.54
Exercisable at the end of the year	**–**	**–**	320,820	2.17

1 weighted average exercise price.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2011 is nil (2010: 6.58 years). The weighted average fair value of options granted during the year was nil (2010: £3.77). The range of exercise prices for options outstanding at the end of the year was zero (2010: £2.87 – £7.22).

The following table lists the inputs to the models used for the two plans for the year ended 31 December 2011 and the year ended 31 December 2010:

	2011 (EMP)	***2011 (NEMP)***	*2010 (EMP)*	*2010 (NEMP)*
Expected volatility per cent.	**–**	**–**	61.29	61.29
Risk-free interest rate per cent.	**–**	**–**	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

26. Expenses by Nature

	Group	
	2011 £'000	*2010 £'000*
Personnel expense	**497**	351
Professional fees	**182**	51
Travel	**138**	57
Exchange rate loss	**158**	256
Share based payments	**143**	326
Other	**424**	312
Total administration expenses	**1,542**	1,353

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.

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 £236,740 (2010: £226,247) the same effect is had on equity.

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

Interest rate risk

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

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

	Group		*Company*	
Floating rate – within one year	***2011***	*2010*	***2011***	*2010*
	£'000	*£'000*	***£'000***	*£'000*
Financial Assets				
Cash and cash equivalents	**238**	518	**233**	408
Financial Liabilities				
Interest bearing loans & borrowings	**2,507**	2,311	**2,507**	2,311

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 £21,236 (2010: £16,405) and Company loss for the year by £21,277 (2010: £17,495) the effect is had on equity.

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.

The table below summarises the maturity profile of the Group's financial liabilities (undiscounted amounts of principal and related interest) at 31 December 2011 and 2010 based on contractual undiscounted payments:

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

	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 2010						
Convertible note	–	–	–	2,441	–	2,441
Financial liability	–	–	–	822	–	822
Interest free loan	–	9,034	–	–	–	9,034
Trade and other payables	–	235	–	–	–	235
	–	9,269	–	3,263		12,532

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted payments.

	On Demand £'000	***Less than 3 months £'000***	***3 to 12 months £'000***	***1 to 5 years £'000***	***Over 5 years £'000***	***Total £'000***
Year ended 31 December 2011						
Convertible note	**–**	**–**	**2,543**	**–**	**–**	**2,543**
Financial liability	**–**	**–**	**28**	**–**	**–**	**28**
Trade and other payables	**–**	**271**	**–**	**–**	**–**	**271**
	–	**271**	**2,571**	**–**	**–**	**2,842**
Year ended 31 December 2010						
Convertible note	–	–	–	2,441	–	2,441
Financial liability	–	–	–	822	–	822
Interest free loan	–	9,034	–	–	–	9,034
Trade and other payables	–	82	–	–	–	82
	–	9,116	–	3,263	–	12,379

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 31 December 2011 and 2010, 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	***2011 £'000***	*Restated 2010 £'000*
Group			
Cash and cash equivalents	15	**238**	518
Trade and other receivables	16	**428**	69
Other assets	17	**–**	9,034
		666	9,621

	Note	2011 £'000	Restated 2010 £'000
Company			
Cash and cash equivalents	15	**233**	408
Trade and other receivables	16	**109**	2
Amounts receivable from subsidiary		**4,541**	3,832
Other assets	19	**–**	9,034
		4,883	13,276

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.

	2011		*2010*	
	Carrying values £'000	***Fair values £'000***	*Carrying values £'000*	*Fair values £'000*
Financial assets				
Cash and cash equivalents	**238**	**238**	518	518
Trade and other receivables	**428**	**428**	69	69
Other assets	**–**	**–**	9,034	9,034
Loans and receivables	**666**	**666**	9,621	9,621
Financial liabilities				
Trade and other payables	**(358)**	**(358)**	(235)	(235)
Other loans	**–**	**–**	(9,034)	(9,034)
Financial liabilities measured at amortised cost	**(358)**	**(358)**	(9,269)	(9,269)
Financial liability	**(28)**	**(28)**	(822)	(822)
Convertible note	**(2,507)**	**(2,507)**	(2,311)	(2,311)
Financial liabilities at fair value through profit and loss	**(2,535)**	**(2,535)**	(3,133)	(3,133)
	(2,227)	**(2,227)**	(2,781)	(2,781)

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.

	2011		*2010*	
	Carrying values £'000	***Fair values £'000***	*Carrying values £'000*	*Fair values £'000*
Financial assets				
Cash and cash equivalents	**233**	**233**	408	408
Trade and other receivables	**109**	**109**	2	2
Amounts receivable from subsidiary	**4,541**	**4,541**	3,832	3,832
Other assets	**–**	**–**	9,034	9,034
Loans and receivables	**4,883**	**4,883**	13,276	13,276

	2011		2010	
	Carrying values £'000	**Fair values £'000**	*Carrying values £'000*	*Fair values £'000*
Financial liabilities				
Trade and other payables	**(271)**	**(271)**	(82)	(82)
Other loans	**–**	**–**	(9,034)	(9,034)
Financial liabilities measured at amortised cost	**(271)**	**(271)**	(9,116)	(9,116)
Financial liability	**(28)**	**(28)**	(822)	(822)
Convertible note	**(2,507)**	**(2,507)**	(2,311)	(2,311)
Financial liabilities at fair value through profit and loss	**(2,535)**	**(2,535)**	(3,133)	(3,133)
	2,077	**2,077**	1,027	1,027

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

Financial Instruments Carried at Fair Value

The fair value information as of 31 December 2011 and 2010 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).

As of 31 December 2010 and 2009, the Group's financial instruments carried at fair values pertains to the embedded option (financial liability) amounting to £28,000 and £822,000, respectively, which has been determined by inputs for the asset that are not based on observable market data (Level 3).

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

	Group	*Company*
Fair value at 1 January 2011	**(822)**	**(822)**
Gain recognised in the income statement	**794**	**794**
Fair value at 31 December 2011	**(28)**	**(28)**
Fair value at 1 January 2010	(118)	(118)
Loss recognised in the income statement	(704)	(704)
Fair value at 31 December 2010	(822)	(822)

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 plc and divestment of licence interests. In 2011 a total of £1.65 million was raised from the share allotments on 19 January, 11 May and 21 December (Note 22). The Company defines capital as consisting of Share Capital and Share Premium. The balance of Share Capital and Share Premium at year end was £1.844 million (2010: £7.974 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 2011 and nor were there any externally imposed capital requirements imposed on the Company.

30. Post balance sheet events

On 11 January 2012 Zeta Petroleum (Romania) SRL and Rompetrol S.A entered into a formal agreement to terminate the Groups 35 per cent. participating interest in the Zegujani licence. Zeta Petroleum (Romania) has relinquished all title from the licence and has paid to Rompetrol on 22 March 2012 a sum of $125,000 USD in full settlement of any and all obligations connected with the licence.

On 16 February 2012, the Company's wholly owned subsidiary in Romania, Zeta Petroleum (Romania) SRL, received a claim for damages from SC Armax Gaz SRL ("Armax"), a former partner on the Jimbolia field, for an amount equal to approximately $395,000 (£251,575). Zeta Petroleum (Romania) SRL replied to Armax on 27 February 2012, rejecting the claim for damages on the basis that, in the view of the Company, it is ungrounded and without merit.

On 27 January 2012 Zeta Petroleum plc signed a Head of Terms to acquire the entire issued share capital of Regal Petroleum Romania SRL a wholly owned subsidiary of Regal Petroleum plc for a total consideration of $650,000. Upon signing, $10,000 became payable to the vendor and, if the transaction proceeds, the balance of $640,000 will become due upon completion of the acquisition. On 30 May 2012 Zeta Petroleum plc signed a Sale and Purchase Agreement ("SPA") for the entire issued share capital of Regal Petroleum Romania SRL. The SPA was signed subject to terms and conditions being met which have not yet been satisfied. As a consequence the Company has not provided the IFRS 3 disclosures for business combinations which complete after the balance sheet date.

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

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

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.
1.3	Companies should provide the information indicated in the *Guide to reporting on Principle 1.*	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. 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. The Corporate Governance Plan, which includes the Board Charter, is posted on the Company's website.

	Principles and Recommendations	*Comment*
2.	**Structure the board to add value**	
2.1.	A majority of the board should be independent directors.	The Company is currently not in compliance with this recommendation as only one of the four directors is independent.
2.2.	The chair should be an independent director.	The Company is currently not in compliance with this recommendation as Timothy Osborne is a director of the ultimate holding company of a substantial shareholder. The Board believes that the Company, in its current size and level of complexity, cannot justify the expense of searching for, and appointing, an Independent Chairman of the same experience as Mr. Osborne. Points of conflict arising from Mr. Osborne's lack of independence are to be dealt with by Mr. Osborne being excluded in any voting pertaining to potentially conflicting items of business faced by the Board.
2.3.	The roles of chair and chief executive officer should not be exercised by the same individual.	The Company is in compliance with this recommendation.
2.4.	The board should establish a nomination committee.	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. The Company's Corporate Governance Plan includes a Nomination Committee Charter, which discloses the specific responsibilities of the committee. Where necessary, the Board seeks advice of external advisers in connection with the suitability of applicants for Board membership. Once the Board deems that the Company warrants a Nomination Committee, one will be formed in compliance with this Recommendation.
2.5.	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	The Company's Corporate Governance Plan includes a section on performance evaluation practices adopted by the Company. 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.
2.6.	Companies should provide the information indicated in the *Guide to reporting on Principle 2*.	The Company has provided details of each director, such as their skills, experience and expertise relevant to their position in this Prospectus and will also provide these details on its website and in future annual reports.

	Principles and Recommendations	*Comment*
		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. 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. The Corporate Governance Plan, which includes the Nomination Committee Charter, is posted on the Company's website.
3.	**Promote ethical and responsible decision-making**	
3.1.	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • 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.	The Company's Corporate Governance Plan includes a *'Corporate Code of Conduct'*, which provides a framework for decisions and actions in relation to ethical conduct in employment.
3.2.	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	The Company's Corporate Governance Plan includes a *'Diversity Policy'*, which provides a framework for establishing measureable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.
3.3.	Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.	This disclosure has not yet been made as the first year as a listed company has not been completed. Future annual reports will disclose the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.

	Principles and Recommendations	*Comment*
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 *Guide to reporting on Principle 3*.	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.	No formal Audit Committee has been established by the Company as yet as yet as the Board considers the Company is not currently of the relevant size or complexity to warrant the formation of an Audit Committee. The Board, as a whole, currently serves as the audit committee. Once the Board deems that the Company warrants a Audit Committee, one will be formed in compliance with this Recommendation.
4.2.	The audit committee should be structured so that it: • 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.	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 Board 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. As the operations of the Company develop the Board will reassess the formation of the audit committee.
4.3.	The audit committee should have a formal charter.	The Company's Corporate Governance Plan includes an Audit and Risk Committee Charter, which discloses its specific responsibilities.
4.4.	Companies should provide the information indicated in the *Guide to reporting on Principle 4*.	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. The Corporate Governance Plan, which includes the Audit & Risk Committee Charter, is posted on the Company's website.

	Principles and Recommendations	*Comment*
5.	**Make timely and balanced disclosure**	
5.1.	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.	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.
5.2.	Companies should provide the information indicated in Guide to Reporting on Principle 5.	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. The Corporate Governance Plan, which includes a continuous disclosure program, is posted on the Company's website.
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.

	Principles and Recommendations	*Comment*
7.3.	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	The Company has not yet been required to lodge financial statements in Australia and as a result no declaration has been required. Reports on risk management are to be provided to the Board by management or the executive director(s) responsible for the management of the individual risk. The Board will seek the relevant assurance from the management and the executive directors (or their equivalents) at the relevant time.
7.4.	Companies should provide the information indicated in *Guide to Reporting on Principle 7.*	The Company has not currently departed from Principle and Recommendation 7.1, 7.2 and 7.3. The Company will provide an explanation of any departures from Principle and Recommendation 7.1, 7.2 and 7.3 (if any) in its future annual reports. The Corporate Governance Plan, which includes a risk management policy, is posted on the Company's website.
8.	**Remunerate fairly and responsibly**	
8.1.	The board should establish a remuneration committee.	The Board has not established a formal Remuneration Committee at this point in the Company's development. It is considered that the size of the Board along with the level of activity of the Company renders this impractical and the Board, acting without the affected director participating in the decision making process, currently serves as a remuneration committee. The Company's Corporate Governance Plan includes a Remuneration Committee Charter, which discloses its specific responsibilities. Remuneration to the executive directors is by way of salary only and to non-executive directors by way of director fees only, with the level of such salary or fees as the context requires, having been set by the Board to an amount it considers to be commensurate for a company of its size and level of activity. There is currently no link between performance and remuneration, however, it is the intention of the Board to re-assess this once the Company commences operations. Further there are no schemes for retirement benefits in existence.

8.2.	The remuneration committee should be structured so that it: • 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.
	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.	The Board has distinguished the structure of non executive director's remuneration from that of executive directors and senior executives. 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. 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.
8.4.	Companies should provide the information indicated in the *Guide to reporting on Principle 8.*	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. The Corporate Governance Plan, which includes the Remuneration Committee Charter, is posted on the Company's website.

ASX ADDITIONAL INFORMATION

Substantial Shareholders

The issued capital of the Company as at 31 May 2012 is 130,752,240 ordinary shares. 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 31 May 2012

Number of ordinary shares held	*Number of holders in each class*
1 – 1,000[1]	3
1,001 – 5,000	1
5,001 – 10,000	125
10,001 – 100,000	259
100,001 – and over	88

1 These shareholdings constitute unmarketable parcels of ordinary shares.

Top 20 Shareholders as at 23 May 2012

Rank	*Name*	*Units*	*%*
1	GM Investment & Co Limited	43,385,139	33.18
2	Mr. David Scanlen	10,000,000	7.65
3	Mr. Scott Pagel	9,094,375	6.96
4	Cresthaven Investments Pty Ltd	8,084,015	6.18
5	Banque Heritage SA	7,000,000	5.35
6	WCI Overseas Oil & Gas LLC	3,062,420	2.34
7	AM2 (Bermuda) Ltd	1,670,411	1.28
8	Robert Gherghetta	1,642,951	1.26
9	C. C. G. Lewis	1,600,011	1.22
10	Bronzewing Investments Pty Ltd	1,500,000	1.15
11	Prospectuini SA	1,108,039	0.85
12	JP Morgan Nominees Australia Ltd	1,000,000	0.76
13	Daniel John Robinson	1,000,000	0.76
14	Scott Investment Fund Pty Ltd	750,000	0.57
15	Caldwell Management AG	720,005	0.55
16	HSBC Global Custody Nominees UK Ltd	664,820	0.51
17	Charnay Holdings Limited	500,000	0.38
18	Fitel Nominees Limited	500,000	0.38
19	Silverlight Holdings Pty Ltd	500,000	0.38
20	Philip Crookall	437,328	0.33

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 quotation:

Holder	*Number of Securities*
Fully paid ordinary shares	
Scott Pagel	770,500
GM Investment & Co. Limited	6,140,683
Cresthaven Investments Ltd	308,200
Phillip 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[1]	
Cresthaven Investments Pty Ltd	5,000,000
Scott Investment Fund Pty Ltd	500,000
Copia Investment Holding Company	500,000
Phillip Crookall	3,000,000
Timothy Osborne	1,000,000
Pursuit Capital Pty Ltd	1,876,090

1 All options were issued post 31 December 2011.

The following securities are classified as restricted securities and must be held by the shareholder for a period of 12 months from the date of official quotation:

Holder	*Number of Shares*
Matthew Reed	154,100
Robert Gherghetta	656,252
Silverlight Holdings Pty Ltd <Cairns Investment A/C>	250,000
Charnay Holdings Limited	250,000
Daniel John Robinson	500,000
JP Morgan Nominees Australia Ltd	500,000
Brian Harry Lewis & Sandra Isobel Lewis <Lewis Super Fund>	50,000
Bronzewing Investments Pty Ltd <Bronzewing (P&F Gangemi F/T)>	1,020,500
Banque Heritage	3,500,000
Dartington Portfolio Nominees Limited <DPN>	100,000
Montocone Investments Pty Ltd <Monticone Family Trust>	200,000
Fitel Nominees Pty Ltd	250,000
Pershing Nominees Pty Ltd	100,000
Benjamin James Laurie	50,000
Benjamin James Hodges	50,000
Gracjan Piotr Lambert	50,000
Richard Wolanski	125,000
Sophia Nina Taylor	100,000
DYSPO Pty Ltd	200,000
Cranley Consulting Pty Ltd <Cranley Consulting Trust>	25,000
Zane Robert Lewis <RZL Trust>	25,000
Michael & Lisa Brazier <M&L Brazier Super Fund A/C>	50,000
Generation Capital Pty Ltd	100,000
Allaire Holdings Pty Ltd <Axiom Super Fund A/C>	25,000
Malcolm Raymond James & Jennie Colleen James <James Family S/Fund A/C>	50,000