ZETA PETROLEUM PLC

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

CONTENTS

GENERAL INFORMATION

DIRECTORS

S P West
Non-Executive Chairman

T W Osborne
Non-Executive Director

B Popescu
Non-Executive Director

O Cairns
Non-Executive Director

J Hayward
Non-Executive Director

CHIEF EXECUTIVE OFFICER

A Morrison

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

B Hodges

LOCAL AGENT – AUSTRALIA

O Cairns

REGISTERED OFFICE – UNITED KINGDOM

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REGISTERED OFFICE – AUSTRALIA

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STOCK EXCHANGE LISTING

Australian Securities Exchange
Share code: ZTA

SHARE REGISTRARS

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PLACE OF INCORPORATION

England

COMPANY NUMBER

5560854

WEBSITE

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CHAIRMAN'S STATEMENT

The year under review was one of transition in which the Group took a number of important steps to position itself for future growth. We strengthened the management team by appointing Andy Morrison to the Group as Chief Executive. In addition, we began preparations for the additional listing of the Group in London and whilst this process has taken longer than we hoped, the Board continues to believe that the Group is best suited to gaining access to capital markets in London in order to help secure growth capital from an investor base that is familiar with Europe.

The Group has benefited enormously during the year from the continuing support from its major shareholder, GM Investment & Co Limited. Details of the additional loans provided to the Group during the year are given elsewhere in this report. The Board wishes to place on record its appreciation for the support provided, without which it may not have been possible to lay the foundations for growth that are described in this report.

On the operational side, the Group saw continuing production, appraisal and development activity across our licences including the completion of a gas-to-power project on an existing discovery well and a new gas discovery from a well drilled and tested in December 2014. As a result, in 2015 we anticipate increasing Zeta's net production and revenues, as we focus on proving up the new reserves on our licences and in the process unlocking the considerable value of our asset base.

Zeta has a portfolio of multi-stage oil and gas projects in Romania, all of which were acquired at low cost, have relatively low exploration risk due to existing or historic production, and all have significant near term development potential. Our portfolio consists of three existing exploration and production concessions. Suceava includes the producing Climauti gas field and electricity production from the gas-to-power facility on the Dornesti Sud-1 well with combined 1P reserves of 1.88 billion cubic feet ('Bcf'), the recently drilled Ruda-1 well which has been suspended pending commencement of production which is anticipated by the end of Q2 2015 and the existing SE-1 discovery well which has a Pmean contingent gas resource of 2.05 Bcf. In December 2014 the National Agency of Mineral Resources approved an extension of the concession to 31 December 2016 which will enable the partners to continue our programme of further appraisal and development of the multiple leads and prospects defined by the concession partners. The second concession at Jimbolia contains the Jimbolia Veche discovery and the third concession is the previously producing Bobocu gas field which has a Pmean contingent gas resource of 22.67Bcf and Pmean prospective resources of 11.7Bcf. The Company believes that a substantial value gap has opened up between that of our reserves/resources and Zeta's current market capitalisation and we are working hard to narrow this gap.

Production from Climauti continued to perform in line with forecast with production of 0.379 million Bcf of gas during the year. Revenues generated from Climauti contributed to funding corporate overheads and the Company looks forward to increasing cash revenues from electricity production from the Dornesti Sud-1 well and gas production from the Ruda-1 well which is expected to be put into production in summer 2015.

On our Jimbolia licence, operator NIS Gazprom Neft tested additional possible production intervals in the Jimbolia-100 well during the year which encountering natural gas and which flowed to surface using a range of choke sizes. The well has now been suspended pending an economic analysis of exploitation scenarios.

In 2014 we initiated a campaign to find a farm-in partner for our previously producing Bobocu gas field in order to finance the drilling of a sidetrack of the Bobocu 310 well to bring this gas field back into production. This farm-in process is advanced and ongoing with several companies reviewing the opportunity. In addition to Bobocu 310, four other drill ready prospects have been identified on the licence from a 3D seismic programme undertaken by Zeta in 2010. We look forward to securing a partner with whom we can advance this late stage gas project.

Outlook

All three of our projects hold significant reserves/resources close to existing infrastructure, the potential value of which, assuming sufficient funding and drilling success, far exceeds Zeta's current market capitalisation. While we continue to evaluate opportunities to add new projects to our portfolio, our focus is to close this value gap and I am confident 2015 will see much progress made towards achieving this objective. With preparations for an additional listing in London progressing, production and cash flow set to increase on the Suceava licence and a farm-out process for Bobocu under way we are on course to increase production, prove up the reserves on our licences, and crystallise the value of our asset base.

Finally, I would like to thank our shareholders, large and small, for your continued support and interest in the Company. I believe we are now well positioned to create substantial value for shareholders through the monetisation of our existing portfolio and the development of new opportunities. I look forward to providing the market with updates on our progress in due course.

Chairman
13 March 2015

DIRECTORS AND KEY MANAGEMENT

BOARD OF DIRECTORS

The directors holding office at the end of the year are listed below. Directors have held office for the entire year unless otherwise stated

Stephen West
Non-Executive Chairman

Mr West is a founder of Zeta Petroleum plc and a Chartered Accountant with over 22 years of financial and corporate experience ranging from public practice, investment banking, oil & gas and mining. Previous appointments include senior positions at Duesburys Chartered Accountants, PriceWaterhouseCoopers, and Barclays Capital. Mr West is currently a non-executive director of ASX listed Apollo Consolidated Limited and Finance Director of Oslo Axess listed African Petroleum Corporation Limited.

Timothy Osborne
Non-Executive Director

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

Bogdan Popescu
Non-Executive Director

Mr Popescu is an oil industry specialist and NAMR certified expert with extensive international experience. His former appointments include senior executive positions at the Rompetrol Group and Millennium Group of Companies, and various executive positions at Petroconsultants SA/IHS Energy.

Oliver Cairns
Non-Executive Director

Mr Cairns has over 16 years experience in the small-mid cap corporate and capital markets space. Previously he was a corporate financier and Nominated Adviser for AIM companies in London for over 8 years having joined Blue Oar Securities Plc (now Northland Capital Partners Limited) in July 1999. He is also a Non-Executive Director of ASX and AIM listed Vmoto Limited, a global electric scooter company.

James Hayward – appointed 17 February 2014
Non-Executive Director

Mr Hayward has over 26 years experience as an investment banker. He has significant experience in the natural resources space with particular focus on M&A in the oil and gas sector in Australia. Mr Hayward is currently Director of Capital Markets at DH Flinders Limited, a specialist Asia Pacific corporate advisory practice focused on growth orientated small to midcap companies.

KEY MANAGEMENT

Andy Morrison – appointed 12 May 2014
Chief Executive Officer

Mr Morrison has over 30 years experience in the oil & gas sector having worked with a number of energy companies including Shell and BG Group, as well as Chief Executive roles with two AIM listed companies. Mr Morrison has a BSc (1st Class) in Chemical Engineering and Fuel Technology from the University of Sheffield.

Jimmy Micu
Senior Geologist

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

Ben Hodges
Chief Financial Officer & Company Secretary

Mr Hodges is a qualified Certified Practicing Accountant with over 20 years experience including 11 years in Oil & Gas. Mr Hodges was previously Chief Financial Officer of AIM listed Atlantic Coal plc and has served as Company Secretary for Zeta Petroleum since 2009.

STRATEGIC REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their strategic report on the Group for the year ended 31 December 2014.

INTRODUCTION

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

OBJECTIVES

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

STRATEGY

The Group's strategy is to acquire and maintain a balanced portfolio of assets at various stages of development including production, exploitation and exploration, located in proven hydrocarbon systems. It has an active development programme aimed at unlocking the inherent value in its existing portfolio and expanding its business through a selective approach to asset and corporate actions.

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

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

BUSINESS MODEL

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

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

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

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

Currently, the Group holds oil and gas assets in Romania. The Group intends to leverage off its Romanian operations office and connections to secure future opportunities both inside and, if appropriate, beyond Romania.

Funds required to acquire projects or for exploration and development work have historically been raised through raising capital, debt, or by bringing in a partner to fund works in return for direct equity in the project. The Group intends to maintain the same approach to its future development.

STRATEGIC REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

BUSINESS REVIEW

ROMANIA OPERATIONS

(I) BOBOCU CONCESSION (ZETA 100%)

The Bobocu 310 well was drilled to target depth and logs acquired in 2012. Although the initial testing of the Bobocu 310 well did not yield commercial gas, it is the Company's intention, subject to finance, to sidetrack a well from the Bobocu 310 well location to target an up-dip AVO anomaly area approximately 500 metres to the south.

The intention remains to bring this field back into production.

The Company believes that the Bobocu field remains prospective with a number of stratigraphic traps not drilled or fully drained by previous operators on the field with suitable avenues from which to advance its exploitation. With 100% control of the Bobocu field, there are various development options available.

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

The Jimbolia-100 appraisal well was drilled to target depth and logs acquired in 2013. Production tests were conducted on the primary target zones but analysis of the test results obtained showed the zones not to be economic. This was in large part due to the presence of a high proportion of carbon dioxide in the gas/condensate phase.

During 2014 the Operator tested several additional and potentially gas-bearing shallower zones in the well. Production from these intermediate zones could enable the partners to recover their past investment. Natural Gas was encountered in some of these additional zones and flowed to surface. The well was suspended pending an economic analysis of the potential to put the well into production.

STRATEGIC REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

(III) SUCEAVA CONCESSION (ZETA 50%; RAFFLES ENERGY SRL 50% (OPERATOR))

The Suceava concession includes the Climauti gas field which is currently producing approximately 10,000m3/day from Sarmatian reservoirs at around 460 metres depth, with the production being sold to the Wintershall trading organisation. This modest existing production generated approximately £275,000 net revenue to Zeta during 2014.

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

The first of the two discovery wells to be developed was Dornesti Sud-1. The project put the Dornesti field into experimental production by constructing a highly efficient power plant, based on a phased modular design that allows for build-up of electricity production to a rate of up to 2.5 MW. The facility is located next to the discovery (containing high calorific value conventional natural gas with over 99% methane, at approximately 500m depth) enabling direct conversion of the gas to electricity with connection to the nearby national electricity grid. Dornesti represents the first gas field in Romania that has been developed with production directly via an on-site GTP solution. This project was completed on 5 December 2014 with the first electricity being generated.

On 28 November 2014 the Ruda-1 exploration well was spudded and reached target depth of 551 metres on 5th December. Ruda was targeting an exploration prospect analogue to the nearby Climauti gas field. Mud and wire logs were analysed which identified one zone at 454 – 458 meters for immediate testing. The well was then cased and then perforated on 13th December. Test flows continued for 3 days with flow rates of up to 25,000m3/day on a 12.0mm choke. The conventional natural gas (containing over 98% methane) was discovered in a good quality Sarmatian sandstone reservoir.

Ruda was completed as a production well and suspended waiting on production facilities. The partners plan is to connect this discovery to the Bilca gas processing plant operated by Raffles via a circa 750 meters tie back to the existing Climauti field to Bilca plant flowline. It is expected that the Ruda gas discovery will start experimental production in Q2 – 2015.

With a two year extension granted by the NAMR until 31 December 2016 the partners will turn their attention to exploring options for potential exploration and development including the SE-1 discovery well.

(IV) OTHER OPPORTUNITIES

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

STRATEGIC REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

CORPORATE AFFAIRS

On 17 February 2014 Mr James Hayward joined the Board as a Non-Executive Director and replaced Mr Cameron Manifold who stepped down from the Board in order to focus on other business interests.

On 12 May 2014 Mr Andy Morrison was appointed as Chief Executive Officer replacing Mr Bogdan Popescu who stepped down as Managing Director but remained on the Board as a Non-Executive Director. At the same time Mr Philip Crookall stepped down from the Board in order to pursue other interests.

On 13 May 2014 the Company agreed the terms of an US$850,000 loan with GM Investment & Co Ltd ("GMI"), a major shareholder in the Company. The Loan was for a period of 48 months, secured by a registered debenture, had a 10% coupon with interest being accrued monthly and paid upon maturity. Monthly repayments were to begin in month seven after drawdown with the option to repay in advance of term if the Company's cashflow allowed. Under the terms of the loan agreement GMI was granted options over 5,000,000 shares in the Company at an exercise price of 5 cents per share. The options can be exercised over a six year period.

On 28 July the Company appointed SP Angel Corporate Finance LLP as international broker and equity capital markets advisor to assist with wider investor relations objectives and consider a dual listing on a UK Exchange based in London which is in line with strategy to grow and advance the Company's low-risk, low-cost production, appraisal and exploration assets in onshore Romania, Europe.

On 5 September 2014 the Company entered into an agreement with GMI for an A$2,000,000 convertible loan to the Company. The loan was for a period of six months unless converted or repayable earlier in certain circumstances and had a coupon rate of 10% with interest being accrued monthly and paid upon maturity. The Ordinary Shares issued upon any conversion of the loan are to be issued at a twenty per cent discount to the issue price at Admission on a UK Exchange.

On 31 December 2014 the Company reached agreement with GMI for the amendment, restatement and consolidation of the two previously existing loans (the "Consolidated Loan"). The Consolidated Loan is denominated in Australian Dollars and at the date of signing amounted to AUD3,101,613 inclusive of accrued but unpaid interest. The Consolidated Loan matures on 14th May, 2020, has a 10% coupon with interest being accrued daily, compounded quarterly and payable upon maturity unless otherwise converted into shares. It is unsecured and the extant debenture in respect of the loan of 13 May 2014 will be released. Repayment is to be made in USD and the position is unhedged. GMI has the option to convert any part or all of the Consolidated Loan amount and accrued but unpaid interest at any time following Zeta being listed on a UK Exchange within the authorities approved by shareholders as long as conversion will not result in GMI holding greater than 29.9% of the issued share capital of Zeta. The ordinary shares issued upon any conversion of the Consolidated Loan will be issued at the lower of a twenty per cent discount to the issue price at UK Exchange Admission, or the volume weighted average price of Zeta's shares as traded on the UK Exchange during the five days prior to the conversion date.

As at 4 March 2015 the Company maintained a cash position of AU$681,000 as well as income from its producing Romanian gas and electricity assets.

STRATEGIC REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

KEY PERFORMANCE INDICATORS

During 2014 the Company continued to meet all work requirements on existing licences, actively sought additional oil & gas assets and also ensured that the Company and Group maintained enough cash reserves to finance operational and working capital commitments through the issue of debt.

DIVERSITY

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

Zeta's Diversity Policy defines initiatives which assist the Company in maintaining and improving the diversity of its workforce. In accordance with this policy and ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity which it hopes to achieve over the next three years as positions become vacant and appropriately skilled candidates are available:

Proportion of women	Actual	Objective
Organisation as a whole	10%	50%
Executive management team	Nil	20%
Board	Nil	20%

PRINCIPAL RISKS AND UNCERTAINTIES

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

Specific risks that that the Company faces are:

Discovery Risk:	Risk that no economically producible oil or gas will be discovered or found to be present in the Group's exploration licence areas. The Company attempts to mitigate this risk by undertaking sufficient due diligence where warranted to help ensure opportunities are subjected to proper evaluation.
Capital Intensive Business:	The drilling of wells to discover whether there is oil or gas is a highly capital intensive business and will require the Company to raise capital in the future. The directors regularly review cash flow requirements to ensure the Company can meet financial obligations as and when they fall due.
Natural Gas and Oil Price:	The Company's asset value and economic viability of its exploration projects depend on the price of natural gas and oil. The Company's ability to raise funds in the future is therefore likely to be sensitive to the price of natural gas and oil.

STRATEGIC REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

Environmental Regulations: The exploration, development and production of natural gas and oil can be hazardous to the environment. The Projects are subject to Romanian laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all exploration projects, the Projects may have a variety of environmental impacts should development proceed. The Company intends to conduct its activities in an environmentally responsible manner. However, the Company could be subject to liability due to risks inherent to its activities. The Company may incur substantial costs for environmental rehabilitation, damage control and losses by third parties resulting from its operations.

Government Regulations: The security of tenure over the Company's assets and revenue streams may be adversely affected by change in government regulations in Romania.

The Company attempts to mitigate this risk by maintaining close working relationships with government agencies, keeping abreast of any pending or potential change in regulations and engaging the services of appropriately qualified and experienced legal counsel as and when required.

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

By order of the Board

S P West
Chairman and Director
13 March 2015

1 Berkeley Street
London, W1J 8DJ
United Kingdom

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their report together with the audited financial statements for the year ended 31 December 2014.

RESULTS AND DIVIDENDS

The consolidated income statement is set out on page 20 and shows a loss for the year amounting to £1,394,000 (2013 – loss of £1,274,000). The directors do not recommend the payment of a dividend.

DIRECTORS' MEETINGS

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

	Number held and entitled to attend	Number attended
Stephen West	11	10
Bogdan Popescu	11	8
Timothy Osborne	11	11
Philip Crookall	4	3
Cameron Manifold	1	-
Oliver Cairns	11	11
James Hayward	10	10

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 2014 are set out in Note 19 to the consolidated financial statements.

GOING CONCERN

The Group has £553,000 of cash and cash equivalents at 31 December 2014. the Group's ability to fund its current liabilities, general overheads and work commitments on the Suceava licence area, in particular, to bring Ruda-1 well on to production is reliant on raising further capital in the near future.

If the Group cannot raise funds through the issue of equity they will be reliant on raising funds through either, debt funding or the sale of assets. The Directors are confident that further funds can be raised and it is appropriate to prepare the financial statements on a going concern basis, however there can be no certainty that any fundraise will complete. These conditions indicate existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern, and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

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 loans and trade payables which arise directly from its operations (refer to Note 25).

DIRECTORS AND DIRECTORS' INTERESTS

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

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

The directors who held office at 31 December 2014 had the following interests in the ordinary shares of the Company according to the register of directors' interests:

	Class of Share	Interest at start of year	Interest at end of year
O Cairns[1]	Ordinary	1,650,000	1,650,000
B Popescu[2]	Ordinary	690,758	15,843,903
J Hayward	Ordinary	-	-
T W Osborne	Ordinary	-	-
S P West[3]	Ordinary	9,786,000	11,754,404

[1] O Cairns' shares are held by Silverlight Holdings Pty Ltd ATF The Cairns Investment A/C in which O Cairns has an indirect beneficial interest.
[2] B Popescu acquired 15,153,145 shares on 7 July 2014 in lieu of cash for Directors Fees earned.
[3] S P West's shares are held by Cresthaven Investments Pty Ltd, a company in which S P West has an indirect beneficial interest. Cresthaven Investments Pty Ltd acquired 1,968,404 shares on 7 July 2014 in lieu of cash for Directors Fees earned.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

DIRECTORS AND DIRECTORS' INTERESTS *continued*

According to the register of directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below (see Note 22 for detail on option plans):

Date of grant	Number of options at start of year	Options granted or acquired during year	Options lapsed during year	Number of options at end of year
O CAIRNS[1]				
28 Aug 2013	507,500	-	-	507,500
4 Sep 2013	15,000	-	(15,000)	-
4 July 2014	-	1,000,000	-	1,000,000
	522,500	1,000,000	(15,000)	1,507,500
J HAYWARD[2]				
4 Jul 2014	-	1,000,000	-	1,000,000
T OSBORNE				
11 Jan 2012	1,000,000	-	-	1,000,000
S WEST[3]				
11 Jan 2012	5,000,000	-	(5,000,000)	-
12 Nov 2012	2,046,629	-	-	2,046,629
28 Aug 2013	156,743	-	-	156,743
4 July 2014	-	2,000,000	-	2,000,000
	7,203,372	2,000,000	(5,000,000)	4,203,372
B POPESCU				
11 Jan 2012	2,000,000	-	(2,000,000)	-
12 Nov 2012	83,004	-	-	83,004
28 Aug 2013	179,371	-	-	179,371
4 July 2014	-	1,000,000	-	1,000,000
	2,262,375	1,000,000	(2,000,000)	1,262,375

[1] O Cairns has 1,500,000 options that are held by Silverlight Holdings Pty Ltd ATF The Cairns Investment A/C, an entity in which O Cairns has an indirect beneficial interest.
[2] J Hayward's options are held by Cabot Holdings Pty Ltd, an entity in which J Hayward has an indirect beneficial interest.
[3] S P West's options are held in the name of Cresthaven Investments Pty Ltd, a company in which S P West has an indirect beneficial interest.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

SUBSTANTIAL SHAREHOLDERS

The following parties had interests of greater than 3% of the issued share capital of the Company at 31 December 2014:

	Number of shares	% of issued ordinary share capital
GM Investment & Co Limited	86,770,278	34.50
Hot Chilli Investments Pty Ltd	26,004,500	10.34
B Popescu	15,843,903	6.30
HSBC Custody Nominees	14,567,635	5.79
Cresthaven Investments Pty Ltd[4]	11,754,404	4.67
S Pagel	9,094,375	3.62
Citicorp Nominees	8,300,505	3.30

POLITICAL CONTRIBUTIONS

The Group and Company made no political contributions during the year.

FUTURE DEVELOPMENTS

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

DISCLOSURE OF INFORMATION TO AUDITORS

Refer to page 16.

By order of the Board

S P West
Chairman and Director
13 March 2015

1 Berkeley Street
London, W1J 8DJ
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[4] Cresthaven Investments Pty Ltd is a company in which S P West has an indirect beneficial interest.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the Australian Securities Exchange.

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

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

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

WEBSITE PUBLICATION

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

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

By order of the Board

S P West
Chairman and Director
13 March 2015

1 Berkeley Street
London, W1J 8DJ
United Kingdom

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

We have audited the financial statements of Zeta Petroleum plc for the year ended 31 December 2014 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity and the consolidated and company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group has £553,000 of cash and cash equivalents at 31 December 2014. The Group's ability to fund its current liabilities, general overheads and capital commitments on the Suceava licence area, in particular, to bring the Ruda-1 well on to production is reliant on raising further capital in the near future.

There can be no certainty that the required funds will be raised. If the Group cannot raise funds through the issue of equity they will be reliant on raising funds through either, debt funding or the sale of assets. There are no current ongoing negotiations in relation to these options. This indicates the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Scott Knight

Scott Knight *(senior statutory auditor)*
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
13 March 2015

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

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
Revenue		**283**	244
Cost of goods sold		**(168)**	(134)
Gross Profit		**115**	110
Exploration and evaluation expenses		**(25)**	(57)
Administrative expenses	24	**(1,119)**	(1,510)
Other income		**102**	62
Operating loss		**(927)**	(1,395)
Interest income		**-**	4
Financing costs	4	**(108)**	(3)
Foreign Exchange (loss)/gain		**(359)**	120
Loss before Taxation		**(1,394)**	(1,274)
Income tax	8	**-**	-
Loss for the year attributable to the equity holders		**(1,394)**	(1,274)
Loss per ordinary share – basic and diluted	9	**(0.1p)**	(0.7p)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
Loss for the year		**(1,394)**	(1,274)
Other comprehensive income: *Items which may be reclassified subsequently to profit or loss*			
Exchange differences on translation of foreign operations		**288**	(92)
Total other comprehensive income		**288**	(92)
Total comprehensive loss for the year attributable to the equity holders		**(1,106)**	(1,366)

ZETAPETROLEUMPLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
ASSETS			
Non-current assets			
Intangible assets	10	**556**	634
Property, plant and equipment	11	**966**	530
		1,522	1,164
Current assets			
Trade and other receivables	13	**165**	230
Cash and cash equivalents	14	**553**	88
		718	318
TOTAL ASSETS		**2,240**	1,482
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	19	**251**	234
Share premium	21	**9,320**	9,279
Share based payments reserve	22	**482**	1,434
Share options reserve	23	**131**	131
Capital Contribution Reserve		**347**	-
Foreign currency translation reserve		**583**	295
Retained losses		**(10,467)**	(10,025)
TOTAL EQUITY		**647**	1,348
Non-current liabilities			
Provisions	15	**47**	3
Loans	16	**1,300**	-
		1,347	3
Current liabilities			
Derivative financial liability	17	**20**	-
Trade and other payables	18	**226**	131
		246	131
TOTAL LIABILITIES		**1,593**	134
TOTAL EQUITY AND LIABILITIES		**2,240**	1,482

The Financial Statements were approved by the Board of Directors and authorised for issue on 13 March 2015 and were signed on its behalf by:

Stephen West, Director

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	**2014** £'000	2013 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**1**	2
Investment in subsidiary	12	**596**	596
		597	598
Current assets			
Trade and other receivables	13	**1,085**	799
Cash and cash equivalents	14	**547**	83
		1,632	882
TOTAL ASSETS		**2,229**	1,480
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	19	**251**	234
Share premium	21	**9,320**	9,279
Share based payments reserve	22	**482**	1,434
Share options reserve	23	**131**	131
Capital Contribution Reserve		**347**	-
Foreign currency revaluation reserve		**(214)**	(47)
Retained losses		**(9,627)**	(9,660)
TOTAL EQUITY		**690**	1,371
Non-current liabilities			
Loans	16	**1,300**	-
		1,300	-
Current liabilities			
Derivative financial liability	17	**20**	-
Trade and other payables	18	**219**	109
		239	109
TOTAL LIABILITIES		**1,539**	109
TOTAL EQUITY AND LIABILITIES		**2,229**	1,480

The Financial Statements were approved by the Board of Directors and authorised for issue on 13 March 2015 and were signed on its behalf by:

Stephen West, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Capital Contribution Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2014	**234**	**9,279**	**1,434**	**131**	**-**	**295**	**(10,025)**	**1,348**
Loss for the year	-	-	-	-	-	-	**(1,394)**	**(1,394)**
Other comprehensive income	-	-	-	-	-	**288**	-	**288**
Total comprehensive income	-	-	-	-	-	**288**	**(1,394)**	**(1,106)**
Issue of ordinary shares	**17**	**47**	-	-	-	-	-	**64**
Transaction costs	-	**(6)**	-	-	-	-	-	**(6)**
Interest contribution from shareholder	-	-	-	-	**347**	-	-	**347**
Write-back of share options cancelled during year	-	-	**(952)**	-	-	-	**952**	-
As at 31 December 2014	**251**	**9,320**	**482**	**131**	**347**	**583**	**(10,467)**	**647**

ZETAPETROLEUMPLC

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

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2013	133	6,832	1,196	2,096	387	(8,751)	1,893
Loss for the year	-	-	-	-	-	(1,274)	(1,274)
Other comprehensive income	-	-	-	-	(92)	-	(92)
Total comprehensive income	-	-	-	-	(92)	(1,274)	(1,366)
Issue of ordinary shares	101	483	-	-	-	-	584
Transaction costs	-	(5)	-	-	-	-	(5)
Issue of Rights Issue options	-	(24)	-	24	-	-	-
Issue of replacement IPO options	-	-	-	4	-	-	4
Write-back of share options lapsed during year	-	1,993	-	(1,993)	-	-	-
Share based payments	-	-	238	-	-	-	238
As at 31 December 2013	234	9,279	1,434	131	295	(10,025)	1,348

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Capital Contribution Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2014	**234**	**9,279**	**1,434**	**131**	**-**	**(47)**	**(9,660)**	**1,371**
Loss for the year	-	-	-	-	-	-	**(919)**	**(919)**
Other comprehensive income	-	-	-	-	-	**(167)**	-	**(167)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(167)**	**(919)**	**(1,086)**
Issue of ordinary shares	**17**	**47**	-	-	-	-	-	**64**
Transaction costs	-	**(6)**	-	-	-	-	-	**(6)**
Interest contribution from shareholder	-	-	-	-	**347**	-	-	**347**
Write-back of share options lapsed during year	-	-	**(952)**	-	-	-	**952**	-
As at 31 December 2014	**251**	**9,320**	**482**	**131**	**347**	**(214)**	**(9,627)**	**690**

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

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Losses £'000	Total £'000
As at 1 January 2013	133	6,832	1,196	2,096	(41)	(7,846)	2,370
Loss for the year	-	-	-	-	-	(1,814)	(1,814)
Other comprehensive income	-	-	-	-	(6)	-	(6)
Total comprehensive income	-	-	-	-	(6)	(1,814)	(1,820)
Issue of ordinary shares	101	483	-	-	-	-	584
Transaction costs	-	(5)	-	-	-	-	(5)
Issue of Rights Issue options	-	(24)	-	24	-	-	-
Issue of replacement IPO options	-	-	-	4	-	-	4
Write-back of share options lapsed during year	-	1,993	-	(1,993)	-	-	-
Share based payments	-	-	238	-	-	-	238
As at 31 December 2013	234	9,279	1,434	131	(47)	(9,660)	1,371

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	**2014** **£'000**	2013 £'000
OPERATING ACTIVITIES			
Loss after tax		**(1,394)**	(1,274)
Adjustment to reconcile loss to net cash outflow from operating activities			
Net loss on sale of assets		**-**	19
Depreciation and depletion	11	**134**	75
Amortisation	10	**39**	41
Decommissioning		**(3)**	2
Share based payments	22	**-**	238
Directors fees settled in shares	19	**64**	-
Interest on loans		**108**	-
Effect of foreign exchange rates		**255**	(182)
Interest income		**-**	(4)
Working capital adjustments:			
Decrease/(increase) in receivables		**65**	471
Increase/(decrease) in trade and other payables		**95**	(434)
Net cash outflow from operating activities		**(637)**	(1,048)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	**(552)**	(76)
Interest income		**-**	4
Asset sale proceeds		**-**	9
Net cash outflow from investing activities		**(552)**	(63)
FINANCING ACTIVITIES			
Proceeds from share issue net of costs		**-**	579
Proceeds from replacement IPO options issue	23	**-**	4
Proceeds from loans	16	**1,652**	-
Finance lease payments		**-**	(19)
Net cash inflow from financing activities		**1,652**	564
Net Increase/(decrease) in cash and cash equivalents		**463**	(547)
Effect of foreign exchange rates		**2**	76
Cash and cash equivalents at the beginning of the year	14	**88**	559
Cash and cash equivalents at the end of the year	14	**553**	88

COMPANY STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
OPERATING ACTIVITIES			
Loss after tax		**(908)**	(1,814)
Adjustment to reconcile loss to net cash outflow from operating activities			
Depreciation	11	**1**	2
Share based payments	22	**-**	238
Directors fees settled in shares	19	**64**	-
Interest on loans		**108**	-
Expenses recharged		**(64)**	(83)
Impairment of investment in subsidiary		**-**	1,033
Reversal of Impairment of investment in subsidiary		**(104)**	-
Foreign exchange losses/(gains)		**255**	(228)
Interest income		**-**	(3)
Working capital adjustments:			
(Increase)/decrease in receivables		**94**	(54)
Increase/(decrease) in trade and other payables		**110**	1
Net cash outflow from operating activities		**(444)**	(908)
INVESTING ACTIVITIES			
Interest income		**-**	3
Purchase of property, plant and equipment	11	**-**	(2)
Loans to subsidiary undertakings		**(746)**	(186)
Net cash outflow from investing activities		**(746)**	(185)
FINANCING ACTIVITIES			
Proceeds from share issue		**-**	578
Proceeds from replacement IPO options issue	23	**-**	4
Proceeds from loans	16	**1,652**	-
Net cash inflow from financing activities		**1,652**	582
Net Increase/(decrease) in cash and cash equivalents		**462**	(511)
Effect of foreign exchange rates		**2**	76
Cash and cash equivalents at the beginning of the year	14	**83**	518
Cash and cash equivalents at the end of the year	14	**547**	83

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES

1.1 Authorisation of financial statements and statement of compliance with IFRS

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

The Group's consolidated financial statements for the year ended 31 December 2014 were authorised for issue by the board of directors on 13 March 2015 and the statements of financial position were signed on the Board's behalf by S P West.

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

The consolidated financial statements of Zeta have been prepared on a historical cost basis except for financial instruments which are measured at fair value through profit and loss. The consolidated financial statements are presented in British pounds and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

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

1.2 Going concern

The Group has £553,000 of cash and cash equivalents at 31 December 2014. the Group's ability to fund its current liabilities, general overheads and work commitments on the Suceava licence area, in particular, to bring Ruda-1 well on to production is reliant on raising further capital in the near future.

If the Group cannot raise funds through the issue of equity they will be reliant on raising funds through either, debt funding or the sale of assets. The Directors are confident that further funds can be raised and it is appropriate to prepare the financial statements on a going concern basis, however there can be no certainty that any fundraise will complete. These conditions indicate existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern, and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

1.3 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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. Under IFRS 6 Management makes an assessment of the likelihood of finding commercially recoverable resources for its Intangible Exploration Assets and only where there is any decrease in the likelihood of commercially recoverable reserves being discovered will an impairment assessment be undertaken. The Company assesses its Oil & Gas assets from each cash generating unit (CGU) every reporting period and conducts an impairment test to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil and gas prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Fair value is either 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 or as the present value of estimated future cash flows arising from the continued use of the assets. This includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. The carrying values of the Group's licences as at 31 December 2014 were: Bobocu £256,510 (2013: £295,584); Jimbolia £295,242 (2013: £334,089), Padureni £4,130 (2013: £4,752) and Suceava £955,124 (2013: £524,628), to which no impairment was recorded.

(b) Share based payments

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

(c) Contingencies

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

(d) Market interest rates

The GMI loan carried an implicit interest rate of 10%. In accordance with IAS39 the interest expense must be measured using market rate of interest. A market rate of interest has been adjusted to that of a bond with a similar profile. The market interest rate on similar bonds is 12.5%.

(e) Decommissioning

The Group has obligations in respect of decommissioning on the Suceava licence area. The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, the estimated costs and timing of the work and the discount rate applied. Decommissioning estimates for producing wells on the Suceava field are based on a range of estimates assessed by an independent expert which are periodically reviewed by Management.

(d) Fair value disclosure

The embedded derivative is measured using a risk based pricing model. For more information in relation to the fair value measurement of this derivative please refer to note 17.
The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. Please refer to note 25 for the judgments applied.

(e) Depletion of commercial reserves

Commercial reserves are proven and probable oil and gas reserves, calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a unit of production basis. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price.

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

a) Standards, amendments and interpretations effective in 2014:
The following new standards and amendments to standards are mandatory for the first time for the Group for the financial year beginning 1 January 2014. Except as noted, the implementation of these standards did not have a material effect on the Group:

Standard	Impact on initial application	Effective date
IAS 32 (Amendment 2011)	Offsetting financial assets and financial liabilities	1 January 2014
IFRS 11	Joint arrangements	1 January 2014
IFRS 10	Consolidated financial statements	1 January 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

IFRS 12	Disclosure of interest in other entities	1 January 2014
IAS 27 (Amendment 2011)	Separate financial statements	1 January 2014
IAS 28 (Amendment 2011)	Investments in associates and joint ventures	1 January 2014
IFRIC 21	Levies	1 January 2014

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

Standard	Impact on initial application	Effective date
Annual Improvements to IFRSs 2010-2012 cycle	Amendments to IFRS 2 Share Based Payments, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurements, IAS 16 Property Plant and Equipment, IAS 24 Related Party Disclosures, IAS 38 Intangible assets.	1 July 2014
Annual improvements to IFRSs 2011-2013 cycle	Amendments to IFRS 1 First time adoption, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement, IAS 40 Investment Property	1 July 2014
IAS 1 Disclosure initiatives	Applying professional judgement in disclosure of information in financial statements	1 January 2016
IFRS 11	Application of the principals of IFRS 3 Business Combinations to Interests in Joint Ventures	1 January 2016
IAS 27 (Separate financial statements)	Option to apply equity method when accounting for investments in subsidiaries, joint ventures, associates in separate financial statements.	1 January 2016
Annual improvements to IFRSs 2012-2014 cycle	Amendments to IFRS 5 Non current assets held for sale, IFRS 7 Financial Instruments disclosure, IAS 19 Employee Benefits, IAS 34 Interim Financial Reporting	1 January 2016
IFRS 15	Revenue from Contracts from customers	1 January 2017
IFRS 9	Financial instruments	1 January 2018

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

1.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of Zeta Petroleum plc ("Zeta") and its subsidiaries as at 31 December 2014. 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 2014 was £919,000 (2013: £1,814,000).

1.6 Joint operations

Joint operations are those in which the Group has certain contractual agreements with other participants to engage in joint activities that do not create an entity carrying on a trade or business on its own. The Group includes its share of assets, liabilities and cash flows in joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro rata to the Group's interest in the joint operations. The Group conducts its exploration, development and production activities jointly with other companies in this way.

1.7 Foreign currencies

The consolidated financial statements are presented in British pounds. The functional currency of the Company is Australian dollars. Per IAS 21, once the functional currency of an entity is determined, it should be used consistently, unless significant changes in economic facts, events and conditions indicate that the functional currency has changed. The Company has chosen to present in British pounds as it is a company incorporated and domiciled in the United Kingdom and has adopted the Australian dollar as the functional currency as significant funds raised have been denominated in Australian dollar.

Transactions in currencies other than the functional currency of the appropriate Group company are translated at the rates of exchange prevailing on the dates of the transactions. At the date of each statement of financial position, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rates prevailing on the relevant date. Gains and losses arising on translation are included in the profit or loss for the year.

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

1.8 Intangible assets

Oil and gas exploration assets

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

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

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

Exploration expenditure is expensed through the Consolidated Income Statement and capitalised only from the point where commercially viable oil or gas reserves are discovered.

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

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

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

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

Bobocu 19/12/2007 – 19/12/2027

Jimbolia 25/03/2008 – 25/03/2028

Padureni 25/03/2008 – 25/03/2028

1.9 Property, plant and equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

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

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

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

1.10 Decommisioning

Provisions for decommissioning costs are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Provisions are recorded at the present value of the expenditures expected to be required to settle the Group's future obligations.

Provisions are reviewed at each reporting date to reflect the current best estimate of the cost at present value. Any change in the date on which provisions fall due will change the present value of the provision. These changes are treated as a finance expense.

The unwinding of the discount is reflected as a finance expense. A decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits, and included as part of the cost of the relevant development and production asset. Depletion on this asset is calculated under the unit of production method based on commercial reserves.

1.11 Financial instruments

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are measured at amortised cost, unless the effect of the time value of money is immaterial. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Impairment of financial assets

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

Financial liabilities

All financial liabilities are initially stated at their fair value, less transaction costs and subsequently at amortised cost. Derivative financial liabilities are measured at fair value through profit and loss.

Interest bearing loans and borrowings

Borrowings are initially recognised at the fair value of consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Where borrowings are provided by shareholders at an interest rate discounted to market rates, the difference on initial fair value is taken to equity as a capital contribution.

Where the Group has entered into a Hybrid instrument whereby there is a debt instrument and an embedded derivative financial liability, the fair value of the debt instrument less the fair value of the derivative financial liability is equal to loan recognised on initial measurement.

1.12 Share-based payments

Share options

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

1.13 Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

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

Deferred tax assets and liabilities are offset when there exists a legal and enforceable right to offset and they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1.14 Revenue recognition

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

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

At the reporting date the Group has production from the Climauti gas field which is sold to a single industrial user, and the Dornesti Sud-1 well on the Suceava concession via a gas to power on-site generator. Electricity generated from the Dornesti Sud-1 is sold directly to a single industrial user.

The Group reported other income which arose from a settlement with and insurance provider over a disputed claim from a well drilled in 2010 and the refund of security deposits on the Suceava licence which had been recognised as an expense in the Consolidated Income Statement in prior years.

1.15 Interest income

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

1.16 Share issue expenses and share premium account

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

1.17 Provisions and contingencies

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2. SEGMENT INFORMATION

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

No further disclosure of segment revenue and result is required as this is given in the income statements. The following tables present expenditure and certain asset information regarding the Group's geographical segments for the year ended 31 December 2014:

	2014 £'000	2013 £'000
SEGMENT ASSETS		
United Kingdom		
- Non-current	**1**	2
- Current	**556**	185
Romania		
- Non-current	**1,521**	1,162
- Current	**162**	133
Total		
- Non-current	**1,511**	1,164
- Current	**718**	318
CAPITAL EXPENDITURE		
United Kingdom	**-**	2
Romania	**552**	74
	552	76

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

3. OPERATING LOSS

	GROUP	
	2014 £'000	2013 £'000
Operating loss is stated after charging:		
Amortisation (note 10)	**39**	41
Depreciation and depletion (note 11)	**134**	75
Net foreign exchange differences	**359**	(120)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4. FINANCING COSTS

	GROUP	
	2014 £'000	2013 £'000
Interest payable on loans	**108**	-
Other financing costs	**-**	3
Total financing costs	**108**	3

5. AUDITORS' REMUNERATION

	GROUP	
	2014 £'000	2013 £'000
Audit services		
Fees payable to the Company's auditors for the audit of the Group's consolidated accounts	**30**	30
	30	30

6. EMPLOYMENT COSTS

	GROUP	
	2014 £'000	2013 £'000
Wages and salaries	**268**	513
Social security costs	**10**	26
Share based payments arising from equity-settled share based payment transactions	**-**	238
	278	777

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

	GROUP	
	2014	2013
Management	**-**	2
Administration	**3**	4
	3	6

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

7. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

GROUP AND COMPANY:	**2014 £'000**	2013 £'000
Basic salary and fees	**406**	494
Share based payments	**-**	216
Termination benefits	**-**	2
	406	712

	2014				2013			
	Basic salary and fees £'000	**Share based payments £'000**	**Termination benefits £'000**	**Total £'000**	Basic salary and fees £'000	Share based payments £'000	Termination benefits £'000	Total £'000
T. Osborne	**12**	**-**	**-**	**12**	17	18	-	35
P. Crookall[1]	**4**	**-**	**-**	**4**	72	54	-	126
S. West[2]	**12**	**-**	**-**	**12**	146	90	-	236
B. Popescu	**101**	**-**	**-**	**101**	153	36	-	189
P. Lewis[3]	**-**	**-**	**-**	**-**	22	-	-	22
C. Manifold[4]	**-**	**-**	**-**	**-**	15	-	-	15
O. Cairns[5]	**16**	**-**	**-**	**16**	4	-	-	4
J. Hayward[6]	**70**	**-**	**-**	**70**	-	-	-	-
Total Directors	**215**	**-**	**-**	**215**	429	198	-	627
A. Morrison[7]	**111**	**-**	**-**	**111**	-	-	-	-
B. Hodges	**70**	**-**	**-**	**70**	18	-	-	18
H. Bone	**-**	**-**	**-**	**-**	39	13	2	54
J. Micu	**10**	**-**	**-**	**10**	8	5	-	13
Total Key Management Personnel	**191**	**-**	**-**	**191**	65	18	2	85

B Popescu was the highest paid Director in the 2014 Financial Year.

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

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

[1] Basic salary and fees paid to P Crookall in 2013 includes £5,000 in consultancy fees.
[2] Basic salary and fees paid to S West in 2013 includes £57,000 paid through a service company.
[3] Basic salary and fees paid to P Lewis in 2013 were all paid through a service company.
[4] Basic salary and fees paid to C Manifold in 2013 were all paid through a service company.
[5] Basic salary and fees paid to O Cairns in 2013 and 2012 were all paid through a service company.
[6] Basic salary and fees paid to J Hayward in 2014 includes £60,000 in consultancy fees paid to a service company.
[7] Basic salary and fees paid to A Morrison in 2014 were consultancy fees paid through a service company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

8. TAXATION

	2014 **£'000**	2013 £'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:

	2014 **£'000**	2013 £'000
Accounting loss before tax	**(1,394)**	(1,274)
Expected tax credit at standard UK effective corporation tax of 20% (2013 – 23.25%)	**(279)**	(296)
Disallowed expenses	**42**	18
Share based payment expense	**-**	63
Unrecognised temporary differences on licenses and exploration costs	**13**	14
Effect of lower tax rates in Romania	**12**	43
Unrecognised tax losses	**212**	158
Tax charge for the year	**-**	-

The Group has tax losses arising in the UK of £8,952,273 (2013: £8,120,363) and a deferred tax asset not recognised in the accounts of £2,081,404 (2013: £1,989,489) 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 £10,191,999 (2013: £11,755,341) and a deferred tax asset not recognised in the accounts of £1,630,720 (2013: £1,880,855) that are eligible to be carried forward for up to seven years. The Directors do not consider it appropriate to provide for any deferred tax asset on the basis that there are insufficient profits arising in the foreseeable future against which to offset the losses.

The Group has non-trading losses carried forward in the UK of £nil (2013: £nil) 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 £73,045 (2013: £294,471) arising from share based payments

Deferred tax assets of the Group comprising £3,636 (2013: £3,969) arising from deferred capital allowances, £606,522 (2013: £735,728) in respect of exploration costs and £55,188 (2013: £57,872) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

9. LOSS PER SHARE

	2014 **£'000**	2013 £'000
Loss for the year	**(1,394)**	(1,274)
Loss for the year attributable to the equity holders	**(1,394)**	(1,274)

Basic and diluted loss per share is calculated on the loss for the year attributable to equity holders of the parent of £1,394,000 (2013: £1,274,000) and divided by the weighted average of 242,805,754 (2013: 165,938,771) 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 Notes 16 and 22.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

10. INTANGIBLE ASSETS

	Licence Acquisition Costs £'000	**Total £'000**
Cost:		
As at 1 January 2013	942	942
Effect of movement in foreign exchange	14	14
At 31 December 2013	956	956
Additions	**-**	**-**
Effect of movement in foreign exchange	**(62)**	**(62)**
At 31 December 2014	**894**	**894**
Amortisation:		
As at 1 January 2013	(278)	(278)
Provided in the year (see note 3)	(41)	(41)
Effect of movement in foreign exchange	(3)	(3)
At 31 December 2013	(322)	(322)
Provided in the year (see note 3)	**(39)**	**(39)**
Effect of movement in foreign exchange	**23**	**23**
At 31 December 2014	**(338)**	**(338)**
Net book value at 1 January 2013	664	664
Net book value at 31 December 2013	634	634
Net book value at 31 December 2014	**556**	**556**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

11. PROPERTY, PLANT AND EQUIPMENT

	GROUP			
	Office Equipment £'000	**Oil & Gas Assets £'000**	**Motor Vehicles £'000**	**Total £'000**
Cost:				
As at 1 January 2013	41	549	41	631
Additions	2	74	-	76
Disposals	-	-	(41)	(41)
Effect of movement in foreign exchange	-	10	-	10
As at 31 December 2013	43	633	-	676
Additions	**-**	**599**[i]	**-**	**599**
Disposals	**-**	**-**	**-**	**-**
Effect of movement in foreign exchange	**1**	**(44)**	**-**	**(43)**
As at 31 December 2014	**44**	**1,188**	**-**	**1,232**
Depreciation:				
As at 1 January 2013	(35)	(43)	(7)	(85)
Provided in the year (see note 3)	(5)	(63)	(7)	(75)
Disposals	-	-	14	14
As at 31 December 2013	(40)	(106)	-	(146)
Provided in the year (see note 3)	**(4)**	**(130)**	**-**	**(134)**
Disposals	**-**	**-**	**-**	**-**
Effect of movement in foreign exchange	**3**	**11**	**-**	**14**
As at 31 December 2014	**(41)**	**(225)**	**-**	**(266)**
Net book value at 1 January 2013	6	506	34	546
Net book value at 31 December 2013	3	527	-	530
Net book value at 31 December 2014	**3**	**963**	**-**	**966**

[i] Includes a non-cash addition of £47,000 for decommissioning provision asset.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

	COMPANY	
	Office Equipment £'000	Total £'000
Cost:		
As at 1 January 2013	32	32
Additions	2	2
As at 31 December 2013	34	34
Additions	-	-
As at 31 December 2014	**34**	**34**
Depreciation:		
As at 1 January 2013	(30)	(30)
Provided in the year	(2)	(2)
As at 31 December 2013	(32)	(32)
Provided in the year	**(1)**	**(1)**
As at 31 December 2014	**(33)**	**(33)**
Net book value at 1 January 2013	2	2
Net book value at 31 December 2013	2	2
Net book value at 31 December 2014	**1**	**1**

12. INVESTMENT IN SUBSIDIARIES

	COMPANY	
	2014 £'000	2013 £'000
Cost:		
As at start of year	**596**	596
As at end of year	**596**	596

The Company's directly held subsidiaries are Zeta Petroleum (Romania) SRL and Zeta Petroleum (Suceava) SRL. The Company holds one indirect subsidiary, Zeta Petroleum (Bobocu) SRL which is owned by Zeta Petroleum (Romania) SRL. All are Romanian incorporated companies in which the Company directly or indirectly holds 100% of the entire issued capital. The principal activities of the Company's subsidiaries are exploration and development and the companies operate in Romania.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

13. TRADE RECEIVABLES

	GROUP		COMPANY	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Amounts due within one year:				
VAT receivables	**83**	95	**3**	1
GST receivables	**-**	1	**-**	1
Other receivables	**1**	95	**1**	93
Loans to joint operating partner	**76**	31	**-**	-
Prepayments	**5**	8	**5**	8
Amounts receivable from subsidiary undertaking	**-**	-	**1,076**	696
Total amounts due within one year	**165**	230	**1,085**	799

An impairment of investment charge of £87,000 was made against amounts receivable from subsidiary undertaking in 2014 (2013 £1,033,000).

14. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Cash at bank and on hand	**553**	88	**547**	83
As at end of year	**553**	88	**547**	83

Cash at bank earns interest at floating rates. 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 £553,000 (2013: £88,000) and £547,000 (2013: £83,000) respectively.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

15. PROVISIONS

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

	GROUP	
	2014 **£'000**	2013 £'000
Provision for Decommissioning		
As at start of year	**3**	1
Arising during the year	**44**	2
As at end of year – Provision for Decommissioning	**47**	3

16. LOANS

	GROUP		COMPANY	
	2014 **£'000**	2013 £'000	**2014** **£'000**	2013 £'000
Non-current	**1,300**	-	**1,300**	-
Current	**-**	-	**-**	-

On 31 December 2014 the Company reached agreement with GMI for the amendment, restatement and consolidation of the two existing loans.

Details of the previous loans and a summary of the Consolidated Loan are as follows:

The Company announced on 14 May 2014 that it had entered into a loan agreement with GM Investment & Co Limited ("GMI") for US$850,000 for a period of 48 months, secured by a registered debenture, with a 10% coupon rate and monthly repayments of US$20,000 to commence seven months after drawdown. In the Consolidated Loan agreement this loan is referred to as the First Tranche and was restated into AU$973,978. The total amount of the First Tranche inclusive of interest accrued but unpaid as at the date of entering into the Consolidated Loan agreement was AU$1,037,158.

The Company announced on 10 September 2014 that it had entered into a further loan agreement with GMI for AU$2,000,000 for a period of 6 months with a 10% coupon rate. In the Consolidated Loan agreement this loan is referred to as the Second Tranche. The total amount of

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

the Second Tranche inclusive of interest accrued but unpaid as at the date of entering into the Consolidated Loan agreement was AU$2,064,455.

The Consolidated Loan matures on 14 May 2020, has a 10% coupon with interest being accrued daily, compounded quarterly and payable upon maturity unless otherwise converted into ordinary shares. It is unsecured and the extant debenture in respect of the First Tranche will be released. Repayment is to be made in USD and the position is unhedged.

17. DERIVATIVE FINANCIAL LIABILITY

	GROUP		COMPANY	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Loans				
Non-current	**-**	-	**-**	-
Current	**20**	-	**20**	-

GMI has the option to convert any part or all of the Consolidated Loan amount and accrued but unpaid interest at any time following the Company being listed on the London Stock Exchange ("LSE") ('Admission') within the authorities approved by shareholders as long as conversion will not result in GMI holding greater than 29.9% of the issued share capital of the Company. The ordinary shares issued upon any conversion of the Consolidated Loan will be issued at the lower of a 20 per cent discount to the issue price at Admission, or the volume weighted average price of Zeta's ordinary shares as traded on the LSE during the five days prior to the conversion date. This Conversion Option is an embedded derivative contained within the Loan.

The value of this embedded derivative was measured using a risk based pricing model.

This calculation has been based on the assumption that GMI elects to convert the maximum number of shares possible on day 1 following Admission.

18. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Trade payables	**60**	10	**60**	10
Other taxes and social security costs	**6**	4	**2**	4
Accruals	**160**	117	**157**	95
As at end of year	**226**	131	**219**	109

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

19. SHARE CAPITAL

GROUP AND COMPANY:	31 December 2014 Number	31 December 2014 £'000	31 December 2013 Number	31 December 2013 £'000
Allotted, issued and fully paid:				
As at start of year	**234,362,250**	**234**	133,362,240	133
Issue of new shares:				
- Allotment 3 September 2013 [i]	**-**	**-**	85,695,510	86
- Allotment 18 September 2013 [Vi]	**-**	**-**	15,304,500	15
- Allotment 7 July 2014 [iii]	**17,121,549**	**17**	-	-
As at end of year	**251,483,799**	**251**	234,362,250	234

[i] Allotment 3 September 2013: 85,695,510 shares with a nominal value of £0.001 were issued at an issue price of £0.0058 (AU$0.01) per share.
[ii] Allotment 18 September 2013:15,304,500 shares with a nominal value of £0.001 were issued at an issue price of £0.0058 (AU$0.01) per share.
[iii] Allotment 7 July 2014: 17,121,549 shares with a nominal value of £0.001 were issued to Directors in lieu of cash for services rendered totalling £63,581.

20. RESERVES

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

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

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

Capital contribution reserve relates to the difference between the nominal value and the fair value of the shareholder loan.

Foreign currency translation reserve relates to the foreign exchange effect of the retranslation of the Group's overseas subsidiaries on consolidation into the Group's financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

21. SHARE PREMIUM

GROUP AND COMPANY:	**2014 £'000**	2013 £'000
As at start of year	**9,279**	6,832
Arising on shares issued[i]	**41**	478
Lapse of options	**-**	1,969
As at end of year	**9,320**	9,279

22. SHARE BASED PAYMENT RESERVE

GROUP AND COMPANY:	**2014 £'000**	2013 £'000
As at start of year	**1,434**	1,196
Charge for the year - employees	**-**	238
Cancellation of options – employees	**(952)**	-
As at end of year	**482**	1,434

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

GROUP AND COMPANY:	**2014 £'000**	2013 £'000
Expense arising from equity-settled share-based payment transactions	**-**	238
Total expense arising from share-based payment transactions	**-**	238

Employee Plan

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

The fair value of the options is determined using the Black Scholes method as stated in Note 1.11. The contractual life of each option granted is seven years. There are no cash settlement alternatives.

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

[i] includes placing costs of £5,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Non-Employee Plan

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

The fair value of the options is determined using the Black Scholes method as stated in Note 1.12. and not the value of services provided as this is deemed the most appropriate method of valuation. In all cases non-employee option holders received cash remuneration in consideration for services rendered in accordance with agreed letters of engagement. The contractual life of each option granted ranges from two to five years. There are no cash settlement alternatives. Volatility was determined by calculating the volatility for three similar listed companies and applying the average of the four volatilities calculated.

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

GROUP AND COMPANY:	**2014 Number**	**2014 WAEP[ii] pence**	2013 Number	2013 WAEP pence
Outstanding at the beginning of the year	**88,146,348**	**7**	72,038,580	14
Granted during the year	**15,576,506**	**2**	57,850,008	2
Exercised during the year	**-**	**-**	-	-
Lapsed during the year	**(7,350,000)**	**2**	(41,742,240)	11
Cancelled during the year	**(11,450,000)**	**2**	-	-
Outstanding at end of year	**84,922,854**	**5**	88,146,348	7
Exercisable at end of year	**76,472,854**	**5**	88,146,348	7

The weighted average remaining contractual life for the share options outstanding as at 31 December 2014 is 4.63 years (2013: 4.19 years). The weighted average fair value of options granted during the year was 0.00003 pence (2013: 0.05 pence). The range of exercise prices for options outstanding at the end of the year was 2 – 16 pence (2013: 2 – 19 pence).

The following table lists the inputs to the models used for the two plans for the years ended 31 December 2014 - 31 December 2012:

	2014 (EMP)	**2014 (NEMP)**	2013 (EMP)	2013 (NEMP)	2012 (EMP)	2012 (NEMP)
Expected volatility %	**32.71 – 34.73**	**34.73-**	-	69.75	85.26	85.26
Risk-free interest rate %	**2.44**	**2.44**	-	2.442–2.533	3.50	3.00
Expected life of options (years)	**7**	**2**	-	0.8-1.8	1-7	1-7
WAEP[1] - pence	**2**	**2**	-	2	13	19
Expected dividend yield	**-**	**-**	-	-	-	-
Model used	**Black Scholes**	**Black Scholes**	Black Scholes	Black Scholes	Black Scholes	Black Scholes

[ii] weighted average exercise price

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Broker Options
On 28 February 2014 Loeb Aron & Co. were issued 1,000,000 share options pursuant to an engagement letter. The options have an exercise price of 4 cents any time prior to the expiry date of 6 February 2016.

Rights Issue Options
On 28 February 2014 the Company issued 1,126,506 share options in accordance with the terms included in the Prospectus dated 18 July 2013. The options have an exercise price of 4 cents any time prior to the expiry date of 30 June 2015.

Management Options
On 28 February 2014 a senior employee was issued 3,000,000 share options. The options have an exercise price of 4 cents any time prior to the expiry date of 6 February 2021.

Unlisted Options
On 14 May 2014 GM Investment & Co. were issued 5,000,000 share options pursuant to a loan agreement. The options have an exercise price of 5 cents any time prior to the expiry date of 14 May 2020.

Management Options
On 4 July 2014 directors were issued a total of 5,450,000 share options. The options have an exercise price of 4 cents any time prior to the expiry date of 4 July 2021.

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

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

23. SHARE OPTIONS RESERVE

GROUP AND COMPANY:	**2014 £'000**	2013 £'000
As at start of year	**131**	2,096
IPO options lapsed	**-**	(1,993)
Issue of replacement IPO options	**-**	4
Issue of Rights Issue options	**-**	24
As at end of year	**131**	131

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

24. EXPENSES BY NATURE

	GROUP	
	2014 **£'000**	2013 £'000
Personnel expense	**278**	539
Professional fees	**86**	80
Travel	**52**	67
Share based payments	**-**	238
Other	**703**	586
Total administration expenses	**1,119**	1,510

25. FINANCIAL INSTRUMENTS

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

Foreign currency risk

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

Foreign currency risk arises due to assets and liabilities denominated in non-Australian dollar ('AUD') currencies changing in real AUD terms due to movement in foreign exchange rates against the Australian dollar.

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

The Group's financial assets and liabilities are denominated in the different currencies as set out below. The table is displayed as Australian dollars which is the functional currency of the Company:

	British Pounds A$'000	**US Dollars A$'000**	**Euros A$'000**	**Romanian New Lei A$'000**	**Total A$'000**
Current Assets - 2014					
Cash and cash equivalents	**169**	**185**	**588**	**8**	**950**
Trade and other receivables	**17**	**-**	**-**	**154**	**159**
Liabilities - 2014					
Trade and other payables	**379**	**-**	**29**	**13**	**147**
Current Assets - 2013					
Cash and cash equivalents	4	-	4	8	16
Trade and other receivables	16	-	-	5	21
Liabilities - 2013					
Trade and other payables	104	-	78	40	220

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Foreign currency risk sensitivity analysis:

	2014 £'000	2013 £'000
Change in profit/(loss) (AUD:EUR)	(24)	(13)
Improvement in AUD to EUR by 10%	24	13
Decline in AUD to EUR by 10%		
Change in profit/(loss) (AUD:RON)		
Improvement in AUD to RON by 10%	(7)	(2)
Decline in AUD to RON by 10%	7	2

The Company's financial assets and liabilities are denominated in the different currencies as set out below:

	British Pounds A$'000	**US Dollars A$'000**	**Euros A$'000**	**Romanian New Lei A$'000**	**Total A$'000**
Current Assets - 2014					
Cash and cash equivalents	**169**	**185**	**584**	**-**	**938**
Trade and other receivables[i]	**17**	**-**	**12,802**	**2,843**	**15,650**
Liabilities - 2014					
Trade and other payables	**379**	**-**	**29**	**-**	**134**
Current Assets - 2013					
Cash and cash equivalents	4	-	1	-	5
Trade and other receivables[i]	16	-	11,771	2,944	14,731
Liabilities - 2013					
Trade and other payables	104	-	78	-	180

[i] Includes loans to Romanian subsidiaries before impairment provision.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Interest rate risk

The Group and Company earn interest from bank deposits at floating rates. The interest rate on the loan from GM Investment & Co. is fixed at 10%.

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	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Floating rate – within one year:				
Financial Assets				
- Cash and cash equivalents	**553**	88	**547**	83

Liquidity Risk

The Group and Company monitor liquidity risk on a monthly basis by maintaining cashflow summaries and forecasts extending out for a twelve month period. The Group and Company have no long term cash investments at reporting date. In order to meet both overhead and operational cashflow obligations the Group and Company issues additional equity for cash, obtains debt finance 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 2014 and 2013 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 2013						
Trade and other payables	-	127	-	-	-	127
As at 31 December 2013	**-**	**127**	**-**	**-**	**-**	**127**
Year ended 31 December 2014						
Loans	-	-	-	-	1,300	1,300
Trade and other payables	-	220	-	-	-	220
As at 31 December 2014	**-**	**220**	**-**	**-**	**1,300**	**1,520**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2014 and 2013 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 2013						
Trade and other payables	-	105	-	-	-	105
As at 31 December 2013	**-**	**105**	**-**	**-**	**-**	**105**
Year ended 31 December 2014						
Loans	-	-	-	-	1,300	1,300
Trade and other payables	-	217	-	-	-	217
As at 31 December 2014	**-**	**217**	**-**	**-**	**1,300**	**1.517**

Credit Risk

The Group trades only with recognised, creditworthy third parties. With respect to credit risk arising from the other financial assets of the Group, which is comprised of cash and receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of cash and cash equivalents. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent. As of December 31, 2014 and 2013, there were no past due or impaired financial assets. There is an immaterial balance held in Romanian bank accounts where the credit risk is deemed to be immaterial.

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

	Note	GROUP		COMPANY	
		2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Cash and cash equivalents	14	**553**	88	**547**	83
Trade and other receivables	13	**1**	95	**1**	93
Amounts receivable from subsidiary	13	**-**	-	**1,076**	696
		554	183	**1,624**	872

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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.

	2014		2013	
	Carrying Values £'000	**Fair Values £'000**	Carrying Values £'000	Fair Values £'000
Financial assets				
Cash and cash equivalents	**553**	**553**	88	88
Trade and other receivables	**1**	**1**	95	95
Loans and receivables	**554**	**554**	183	183
Financial liabilities				
Trade and other payables	**(1,520)**	**(1,520)**	(127)	(127)
Financial liabilities measured at amortised cost	**(1,520)**	**(1,520)**	(127)	(127)
	(966)	**(966)**	56	56

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.

	2014		2013	
	Carrying Values £'000	**Fair Values £'000**	Carrying Values £'000	Fair Values £'000
Financial assets				
Cash and cash equivalents	**547**	**547**	83	83
Trade and other receivables	**1**	**1**	93	93
Amounts receivable from subsidiary	**1,076**	**1,076**	696	696
Loans and receivables	**1,624**	**1,624**	872	872
Financial liabilities				
Trade and other payables	**(1,517)**	**(1,517)**	(105)	(105)
Financial liabilities measured at amortised cost	**(1,517)**	**(1,517)**	(105)	(105)
	107	**107**	767	767

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and other loans approximate their fair values due to short-term maturities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Financial Instruments Carried at Fair Value

The fair value information as of December 31, 2014 and 2013 of financial liability hierarchy of financial instruments measured at fair value is provided below:

	Level 3 £'000	
Financial liabilities	2014	2013
Derivative financial liability	20	-

The value of this embedded derivative was measured using a risk based pricing model as set out in the table below:

Estimated number of shares able to be converted	x	*estimated discounted Admission price per share*	x	*probability of Admission occurring*

If the number of shares converted by GMI was to increase or decrease by 20% from the estimated number the value of the embedded option would change by £4,064 accordingly.

26. RELATED PARTY TRANSACTIONS

Payments to related parties

There were no related party transactions during the year other than remuneration to Directors as disclosed in Note 7 and the loan with GMI as disclosed in Note 16.

Loans from Zeta Petroleum plc to Subsidiaries

As at 31 December 2014 there were amounts receivable of £7,819,584 (31 December 2013 £7,507,025) due from Zeta Petroleum (Romania) SRL and £385,674 (31 December 2013 £411,583) due from Zeta Petroleum (Suceava) SRL. An impairment of £103,603 (2013 £1,032,997) was made against the value of the loan to Zeta Petroleum (Romania) SRL. The amounts were interest free and repayable when sufficient cash resources are available in the subsidiaries.

During the year the Company made cash advances to its subsidiaries of £746,000 (2013 £186,000).

All Group transactions were eliminated on consolidation.

27. CAPITAL COMMITMENTS

Capital Commitments as at 31 December 2014 are listed below:

	Less than 1 year	Between 1 & 2 years
Suceava licence	£278,000	£678,000

The capital commitments on Suceava represent Zeta's 50% share of the cost of the two year work programme as agreed with NAMR upon receiving an extension of the licence to 31 December 2016. The commitment disclosed represents the budget agreed by the operating partners.

28. OPERATING LEASE COMMITMENTS

The Group has office leasing commitments.

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

	GROUP & COMPANY £'000	
	2014	2013
(I) not later than 1 year	**20**	19
(II) later than 1 year and not later than 5 years	**-**	3
(III) not later than 5 years	**-**	
Total Operating lease commitments	**20**	22

29. CAPITAL MANAGEMENT

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

The Group manages its working capital by raising funds through the issuance of ordinary shares in the parent company Zeta Petroleum plc, debt finance and divestment of licence interests. In 2014 a total of $2.97 million (£1.653 million) was raised via a fully drawn down loan facility from a major shareholder (Note 16). In 2013 a total of AU$1.01 million was raised from the share allotments on 18 September 2013 (Note 19). The Company defines capital as consisting of Share Capital and Share Premium. The balance of Share Capital and Share Premium at year end was £9,571 million (2013: £9,513 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 2014 and nor were there any externally imposed capital requirements imposed on the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

30. POST BALANCE SHEET EVENTS

On 11 March 2015 notification of a General Meeting was issued to shareholders who will be asked to vote on a resolution to effect a consolidation of the Company's Existing Share Capital.

The Company's Existing Ordinary Share Capital comprises 251,483,799 Existing Ordinary Shares. The Resolution proposes that every 40 Existing Ordinary Shares of the Company be consolidated into one New Ordinary Share.

The Options in issue will, in accordance with their terms, be consolidated on the same consolidation ratio, and the exercise price of the Options will increase by the inverse of the consolidation ratio.

Holders of fewer than 40 Existing Ordinary Shares will not be entitled to a New Ordinary Share following the Share Consolidation. Holdings in excess of 40 Existing Ordinary Shares, but which are not exactly divisible by 40, will be rounded down to the nearest whole number of New Ordinary Shares following the Share Consolidation. Fractional entitlements, whether arising from holdings of more or fewer than 40 Existing Ordinary Shares, will be rounded down and may be aggregated and sold in the market with the proceeds retained for the benefit of the Company.

The New Ordinary Shares will continue to carry the same rights as attached to them immediately prior to the Share Consolidation as set out in the Articles and will continue to be traded on the ASX.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

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

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
1.3	Companies should provide the information indicated in the *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.
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 five directors is independent.
2.2.	The chair should be an independent director.	The Company is currently not in compliance with this recommendation as Stephen West is an indirect beneficiary of a substantial shareholder. The Board believes that the Company, in its current size and level of complexity, cannot justify the expense of searching for, and appointing, an Independent Chairman of the same experience as Mr West. Points of conflict arising from Mr West's lack of independence are to be dealt with by Mr West being excluded in any voting pertaining to potentially conflicting items of business faced by the Board.
2.3.	The roles of chair and chief executive officer should not be exercised by the same individual.	The Company is in compliance with this recommendation.
2.4.	The board should establish a nomination committee.	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.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
2.5.	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	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 the Director's Report as well as on its website. 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.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
3.2.	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	The Company's Corporate Governance Plan includes a *'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 been made in the Directors Report.
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 been made in the Directors Report.
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.	The Company is partially in compliance with this requirement. The Company has established an Audit Committee consisting or Mr Oliver Cairns who serves as Committee Chairman and Mr Timothy Osborne. Mr Osborne is a director of the ultimate holding company of a substantial shareholder which does not satisfy full requirements to sit on an Audit Committee.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
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 Committee is sufficient to ensure that all significant matters are appropriately addressed and actioned. Further, the Board does not consider that the Company is of sufficient size to justify the appointment of additional directors for the sole purpose of satisfying this recommendation as it would be cost prohibitive and counterproductive. As the operations of the Company develop the Board will reassess the composition 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.
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.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
6.	**Respect the rights of shareholders**	
6.1.	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	The Company's Corporate Governance Plan includes a shareholders communication strategy, which aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.
6.2.	Companies should provide the information indicated in the Guide to reporting on Principle 6.	The Company has not currently departed from Principle and Recommendation 6.1. The Company will provide an explanation of any departures from Principle and Recommendation 6.1 (if any) in its future annual reports. The Corporate Governance Plan, which includes a shareholders communication strategy, will be posted on the Company's website.
7.	**Recognise and manage risk**	
7.1.	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	The Company's Corporate Governance Plan includes a risk management policy. The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.
7.2.	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	The Company's Corporate Governance Plan includes a risk management policy. The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board Meetings.
7.3.	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Reports on risk management have been provided to the Board by management or the executive director(s) responsible for the management of the individual risk. The Board has sought the relevant assurance from the management and the executive directors (or their equivalents) at the relevant time.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
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 and ordinary shares and to non-executive directors by way of director fees or ordinary shares only, with the level of such salary or fees as the context requires, having been set by the Board to an amount it considers to be commensurate for a company of its size and level of activity. There is currently no link between performance and remuneration, however, it is the intention of the Board to re-assess this once the Company expands operations. Further there are no schemes for retirement benefits in existence.
8.2.	The remuneration committee should be structured so that it: • 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.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
8.3.	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	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

SHAREHOLDINGS

The issued capital of the Company as at 27 February 2015 is 251,483,799 ordinary shares held by a total of 376 shareholders. Each share entitles the holder to one vote.

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

Classification of Shareholders as at DATE AS ABOVE:

Number of ordinary shares held	Number of holders in each class
1 – 1,000[1]	5
1,001 – 5,000	5
5,001 – 10,000	77
10,001 – 100,000	190
100,001 – and over.	99

[1] These shareholdings constitute unmarketable parcels of ordinary shares

Top 20 Shareholders as at DATE AS ABOVE:

Rank	Name	Units	%
1	GM Investment & Co Limited	86,770,278	34.50
2	Hot Chilli Investments Pty Ltd	26,004,500	10.34
3	B Popescu	15,843,903	6.30
4	HSBC Custody Nominees	14,567,635	5.79
5	Cresthaven Investments Pty Ltd	11,754,404	4.67
6	S Pagel	9,094,375	3.62
7	Citicorp Nominees	8,180,505	3.25
8	F Lucas	4,584,500	1.82
9	JP Morgan Nominees Australia Ltd	4,135,118	1.64
10	KGBR Future Fund Pty Ltd	4,000,000	1.59
11	WCI Overseas Oil & Gas LLC	3,062,420	1.22
12	J Hester	3,000,000	1.19
13	D & P Neesham	2,852,262	1.13
14	Armax Gaz S.A.	2,600,000	1.03
15	Glennbrown Pty Ltd	2,200,000	0.87
16	M Correia	2,000,000	0.80
17	I Hardisty	2,000,000	0.80
18	Scott Investment Fund Pty Ltd	2,000,000	0.80
19	Angkor Imperial Resources Pty Ltd	1,980,000	0.79
20	AM2 (Bermuda) Ltd	1,670,411	0.66

ASX ADDITIONAL INFORMATION

RESTRICTED SECURITIES

There were no restricted securities as at 31 December 2014.

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

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