

THIS CIRCULAR AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action to be taken you should immediately take your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser duly authorised under the Financial Services and Markets Act 2000, as amended, if you are in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

If you have sold or transferred all of your Existing Ordinary Shares in Zeta Petroleum plc (the “**Company**”), please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you have sold part only of your holding of Existing Ordinary Shares in the Company, you should retain these documents.

ZETA PETROLEUM PLC

Incorporated and registered in England and Wales with registered number 5560854 and registered as a foreign company in Australia with Australian registered business number 154 575 872

DISPOSAL OF MAIN UNDERTAKING, PLACEMENT FACILITY AND NOTICE OF GENERAL MEETING

Notice convening a General Meeting of the Company to be held at the offices of Wiggins Osborne Fullerlove, 52 Jermyn Street, London, SW1Y 6LX on 8 February 2016 at 9.00 a.m. GMT is set out at the end of this document. Shareholders will find enclosed with this document a Form of Proxy for use in connection with the General Meeting. To be valid, the Form of Proxy must be signed and returned in accordance with the instructions printed thereon so as to be received by the Company’s registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, as soon as possible but in any event by not later than 9.00a.m. GMT on 4 February 2016. Completion and posting of the Form of Proxy does not prevent a Shareholder from attending and voting in person at the General Meeting.

This document does not comprise or form part of any offer or invitation to acquire or to dispose of or to subscribe for any interests in shares or securities in the Company and none of its contents nor the fact of its existence may be relied on in connection with any contract therefor.

An independent expert’s report is attached to this Notice of Meeting in Appendix D as required by Listing Rule 10.10. The report concludes that the transaction the subject of Resolution 1 in this Notice of Meeting is **NOT FAIR BUT REASONABLE** to the Company’s non-associated Shareholders for the reasons set out in the report.

ZETA PETROLEUM PLC

(the "Company")

(Incorporated and registered in England and Wales with company number 5560854)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a general meeting of the Company will be held at the offices of Wiggan Osborne Fullerlove, 52 Jermyn Street, London, SW1Y 6LX at 9 a.m. GMT on 8 February 2016, to consider and, if thought fit, pass the following resolutions, which will be proposed as special resolutions.

Special Business

RESOLUTION 1

To consider, and if thought fit, to pass with or without amendment, the following resolution as a **special resolution**:

"That, for the purposes of Listing Rules 10.1 and 11.2 and for all other purposes, Shareholders approve the disposal by the Company of the entire issued share capital in Zeta Petroleum (Romania) srl and Zeta Petroleum (Suceava) srl, together being the main undertaking of the Company, to GM Investment & Co., in consideration of the Debt Settlement, and on the terms and conditions set out in the Explanatory Statement."

Independent Expert's Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of Shareholder approval under ASX Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the transaction the subject of Resolution 1 to the non-associated Shareholders in the Company. **The Independent Expert has concluded that the transaction related to the Disposal the subject of Resolution 1 is NOT FAIR BUT REASONABLE to non-associated Shareholders.**

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and a party to the transaction to acquire 100% of the issued share capital in Zeta Petroleum (Romania) srl and Zeta Petroleum (Suceava) srl. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

RESOLUTION 2

To consider, and if thought fit, to pass with or without amendment, the following resolution as a **special resolution**:

*"That, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the Directors, if they think fit, to issue up to 5,000,000 Shares (**Placement Shares**) at an issue price of 10 cents per share, and otherwise on the terms and conditions set out in the Explanatory Statement"*.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a person who may participate in the proposed issue of the Placement Shares and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

BY ORDER OF THE BOARD

Ben Hodges
Company Secretary

Dated: 15 January 2016

Registered office:
1 Berkeley Street
London
W1J 8DJ
United Kingdom

NOTES TO THE NOTICE OF GENERAL MEETING

Action to be Taken

Each Shareholder is entitled to appoint one or more proxies to attend, speak and vote instead of that Shareholder. A proxy need not be a Shareholder.

Shareholders should kindly complete and return the enclosed Form of Proxy as soon as possible, whether or not they expect to be able to attend the General Meeting. Return of a Form of Proxy will not prevent a Shareholder from attending, speaking and voting in person at the meeting if that Shareholder so wishes.

Holders of CHESSE Depository Interests ("CDIs") are invited to attend but are not entitled to vote personally at the General Meeting. Chess Depository Nominees Pty Ltd ("CDN") holds legal title in the Company's Shares for and on behalf of CDI holders. As the holders of beneficial interest in the Company's Shares that are held by CDN, CDI holders should direct CDN on how to vote with respect to the Resolution described in the Notice of General Meeting using the enclosed CDI Voting Instruction Form. CDN must exercise its rights to vote by proxy at the General Meeting in accordance with the directions of CDI holders.

NOTES

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and vote in that member's place. A member may appoint more than one proxy in relation to this meeting provided that each proxy is appointed to exercise rights attached to a different Share or Shares held by that member. To appoint more than one proxy you may photocopy the Form of Proxy. Please indicate the proxy holder's name and the number of Shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of Shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms should be signed and returned together in the same envelope. A proxy need not also be a member. Completion and return of a Form of Proxy will not preclude a member from attending the meeting and voting in person, if they so wish and are so entitled.
2. To be valid, the enclosed Form(s) of Proxy and any power(s) of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be completed and returned so as to be received by the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by 9.00 a.m. GMT 4 February 2016 or, in the event that the meeting is adjourned, not less than 48 hours (excluding any part of a day which is not a working day) before the time fixed for the holding of the adjourned meeting.
3. Members will be entitled to attend and vote at this meeting if they are registered on the register of members of the Company by 6.00 p.m. GMT on 4 February 2016 or, in the event of any adjournment of the meeting, at 6.00 p.m. GMT on the date which is 2 days before the start of the adjourned meeting (excluding any part of a day which is not a working day).
4. In the case of joint holders, the vote of the senior who tenders a vote will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority is determined by the order in which the names are stated in the register of members of the Company in respect of the joint holding.
5. Any corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all of the powers as a member provided that they do not do so in relation to the same Shares. A resolution of the directors, or other governing body, of the corporation will be required in order to evidence the valid appointment of the corporate representative, in accordance with section 323 of the UK Companies Act 2006.
6. You may not use any electronic address (within the meaning of section 333(4) of the UK Companies Act 2006) provided in this notice or in any related documents (including the form of proxy and the annual report and accounts) to communicate with the Company for any purposes other than those expressly stated.
7. Your personal data includes all data provided by you, or on your behalf, which relates to you as a Shareholder, including your name and contact details, the votes you cast and your reference number (as attributed to you by the Company or its registrars). The Company determines the purposes for which, and the manner in which, your personal data is to be processed. The Company and any third party to which it discloses the data (including the Company's registrars) may process your personal data for the purposes of compiling and updating the Company's records, fulfilling its legal obligations and processing the shareholder rights you exercise.
8. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy form of proxy and would like to change the instructions using another hard-copy form of proxy, please contact Computershare Investor Services Plc at the address shown in note 2, above.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

9. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Computershare Investor Services Plc at the address shown in note 2, above. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Computershare Investor Services Plc no later than 9.00 a.m. GMT 4 February 2016.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

APPENDIX A – EXPLANATORY STATEMENT TO THE NOTICE OF GENERAL MEETING

This Explanatory Statement forms part of a Notice convening the General Meeting of Shareholders of Zeta Petroleum plc to be held at the offices of Wiggin Osborne Fullerlove, 52 Jermyn Street, London, SW1Y 6LX at 9.00 a.m. GMT on 8 February 2016. This Explanatory Statement is to assist Shareholders in understanding the background to and the legal and other implications of the Notice and the reasons for the Resolution proposed. Certain terms used in this Explanatory Statement are defined in Appendix B.

1. RESOLUTION - DISPOSAL OF MAIN UNDERTAKING

1.1 Background

On 14 May 2014 the Company announced that it had entered into a loan agreement with GM Investment & Co. (“GMI”) for US\$850,000. On 10 September 2014 the Company announced that it had entered into a further loan agreement for AU\$2,000,000. These loans were amended, restated and consolidated on 31 December 2014 at which date the total of the Consolidated Loans including accrued but unpaid interest was AU\$3,101,613. This loan provided support for working capital as the Company prepared for a possible secondary listing in London and continued to evaluate expansion opportunities. As at 13 January 2016 the total outstanding balance of the loan including accrued but unpaid interest was AU\$3,435,761.

On 28 May 2015 the Company announced that it had entered into an agreement with GMI for a loan facility of up to US\$500,000 due to be repaid in full on or before 31 December 2015 (“Maturity Date”). On 12 January 2016 the Company announced that it had reached agreement with GMI for a further drawdown under the facility of US\$108,880 for the sole purpose of enabling the Company to honour a funding obligation with respect to the Suceava licence in Romania and keep the licence in good standing. As at 13 January 2016 US\$408,880 of this facility has been drawn down and the total amount outstanding inclusive of accrued but unpaid interest is US\$428,400. The balance of the loan outstanding in Australian dollars is AU\$610,342. This was converted at a USD/AUD exchange rate of 1.4247.

These loans are referred to collectively as “**the Debt**” and as at 13 January 2016 the total aggregate amount of The Debt outstanding including accrued but unpaid interest was AU\$4,046,103.

GMI is the Company’s largest shareholder, owning 2,169,256 Ordinary Shares in the Company amounting to approximately 29.9% of its issued share capital.

Over the last twelve months the oil & gas industry has seen a substantial fall in the oil price which is still at levels not seen since 2009. This has resulted in reduction in investment and capital expenditure across the industry, and a negative impact on investor sentiment for the oil & gas industry.

One condition precedent for the Company completing a secondary listing in London was securing a farm-in partner for work commitments on the Company’s Bobocu concession in order to meet working capital requirements which, due to the prevailing industry conditions mentioned above, the Company found itself unable to complete. The result being that the Company is currently unable to complete a secondary listing in London or progress development of its assets.

Furthermore the Company owes the Debt to GMI which it is no longer able to service or have any visibility to repaying in the future. In the event that the Company is not able to raise additional funds to service the debt and progress the development of its assets it may be forced into liquidation. GMI has advised that it will not provide any additional funding to the Company.

As a result of recent discussions, the Company and GMI have entered into a Sale and Purchase Agreement (“SPA”) whereby it has been agreed (subject to the Shareholder approval sought herein) to take the following action (summarised):

- a) Extinguish the Debt; and
- b) Contemporaneously and in consideration for (a), the Company will transfer 100% of the issued share capital in Zeta Petroleum (Romania) srl and Zeta Petroleum (Suceava) srl (together referred to as “**The Subsidiaries**”) to GMI.

Further details in respect of the SPA are set out Section 1.4.

The Resolution seeks Shareholder approval for the Company to undertake the actions agreed to (subject to Shareholder approval) in the SPA. Shareholders should carefully read this Explanatory Statement and the Independent Expert's Report in its entirety, and if required, should obtain independent advice. In the absence of a superior offer, the Directors intend to vote in favour of the resolution in respect of their own beneficial shareholdings, which amount in aggregate to 947,197 Existing Ordinary Shares, representing approximately 13.06 per cent of the Existing Ordinary Share Capital as at the date of this document.

Resolution 1 is a special resolution.

1.2 Summary of Zeta Petroleum and its Operations

The Company is an independent oil and gas exploration and development company incorporated in England and Wales on 12 September 2005 and re registered as a public company on 6 December 2011.

The Company is active in Romania where it has established reserves, is a gas and electricity producer and has interests in three concessions on which there are discoveries and it has the following participating interests:

- **Suceava Gas Field:** in which the Group has a 50 per cent. interest that has existing gas production from the Climauti and Ruda-1 wells and electricity production from a gas-to-power operation at the Dornesti-Sud well, as well as containing a further gas discovery well at Granicesti (SE-1).
- **Bobocu Gas Field:** an appraisal and exploration asset in which the Group has a 100 per cent. interest. This mature gas field was shut in 1995 and has P_{mid} contingent resources of 23Bcf. In 2012 the Bobocu-310 well was drilled and although there were shows of gas there was no gas flow to surface during testing. Current plans are to drill a side track well from Bobocu-310 by year end 2016 and bring it into production, subject to the current farm out process being successful.
- **Jimbolia Oil and Gas Field:** in which the Group has a 39 per cent. interest, contains a previous oil and a gas discovery. Drilling in 2013 confirmed the discovery of both light oil and condensate that flowed to surface. The well is not now considered economic due to the significant co-production of carbon dioxide, however, flow testing of additional gas-prone zones was conducted successfully in 2014 and at the date of this prospectus, the well remains suspended pending further technical evaluation and an economic analysis of a potential development plan.

The Group has a local management and technical team based in Bucharest, Romania, which is supplemented by corporate management based in the UK and Australia.

1.3 GMI & the Company

As noted in Section 1.1, at the date of the Notice, GMI is the holder of the Debt.

GMI also has a relevant interest in 2,169,256 Ordinary Shares in the Company amounting to approximately 29.9% of its issued share capital.

1.4 Key Terms of the SPA

The key terms of the SPA are as follows:

- i) Completion of the transaction is subject to several conditions ("Conditions Precedent") including the Shareholders passing a resolution in favour of the Transaction at a general meeting;
- ii) Subject to satisfaction or waiver of the Conditions Precedent GMI shall buy issued shares of The Subsidiaries free from all encumbrances and together with all rights and obligations that attach (or may in the future attach) to those shares including, in particular, the right to receive all dividends and distributions declared, made or paid on or after completion of the Transaction;

- iii) The purchase price consists of a) a cash payment equal to (i) the cash balances held by The Subsidiaries as at the date of Completion plus (ii) Zeta Subsidiaries share of monies held in the joint venture account with its partner in the Suceava concession; and b) waiver of the Debt. As at 31st December 2015 The Subsidiaries had cash balances of AU\$7,230 and the balance of the joint venture account with its partner in the Suceava concession was approximately AU\$80,000.
- iv) The Company will provide certain warranties and representations as at the date of Completion, except as otherwise disclosed;
- v) The Company is not liable for claims under the SPA that are a) less than US\$25,000; b) previously disclosed by the Company; or c) relate to a matter fully provided for in the Company's accounts;
- vi) The agreement and any dispute or claim arising out of or in connection with it or its subject matter or formation (including non-contractual disputes or claims) are governed by and construed in accordance with the law of England and Wales; and
- vii) The Transaction is due to complete after the General Meeting on 9 February 2016, or a later date as agreed in writing between the Company and GMI.

1.5 Financial Effects of the Transaction

A pro forma balance sheet demonstrating the effect of the Disposal on the financial position of the Company is included as Appendix C. Additional information in relation to the financial effect of the Disposal on the Company is set out in the Independent Expert's Report.

1.6 Indicative Timetable

The Company expects that the indicative timetable for implementation of the Disposal will be as set out in the table below:

Event	Date
Shareholder Approval for Disposal	8 February 2016
Completion of Disposal	8 February 2016

1.7 Listing Rule 11.2

In summary, Listing Rule 11.2 provides that where a company proposes to make a significant change in the nature or scale of its activities which involves the disposal of its main undertaking, it must first obtain the approval of its shareholders. Accordingly, Shareholder approval for the purpose of Listing Rule 11.2 is sought via Resolution 1.

Shareholders should be aware that as a result of the proposed Disposal, ASX may require the Company to seek Shareholder approval pursuant to Listing Rule 11.1.2 and/or re-comply with Chapters 1 and 2 of the Listing Rules pursuant to Listing Rule 11.1.3 with respect to any future transaction that the Company may enter into.

1.8 Listing Rule 10.1

Listing Rule 10.1 provides that an entity must not acquire a "**substantial asset**" from, or dispose of a "**substantial asset**" to, a "**substantial holder**" in the entity, if the holder and the holder's associates have a relevant interest in at least 10% of the total votes attached to the voting securities in the entity.

For the purposes of Listing Rule 10.1, an asset is substantial if its value, or the value of the consideration for it is, or in ASX's opinion is 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the listing rules. For present purposes, the interest in The Subsidiaries of which is the subject of the Disposal constitutes a "substantial asset".

As noted in Section 1.3, GMI has a relevant interest in 2,169,256 Ordinary Shares in the Company amounting to approximately 29.9% of the total votes attached to the voting securities in the Company. As such, GMI is a "substantial holder" for the purposes of Listing Rule 10.1.

Accordingly, the Company seeks Shareholder approval pursuant to Resolution 1 for the purposes of (amongst other things) Listing Rule 10.1 to undertake the Disposal.

Listing Rule 10.10 requires that the notice of meeting for a resolution under Listing Rule 10.1 includes a report from an independent expert in which the expert states their opinion as to whether the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded. The Company engaged Stantons International Securities Pty Ltd ("SIS") to provide their opinion, and the report from SIS is attached as Appendix D.

IN THE INDEPENDENT EXPERT'S REPORT ATTACHED AS APPENDIX D SIS CONFIRMS THAT IN THEIR OPINION, THE DISPOSAL IS **NOT FAIR BUT REASONABLE** TO THE COMPANY'S SHAREHOLDERS WHOSE VOTES IN RELATION TO RESOLUTION 1 ARE NOT TO BE DISREGARDED.

1.9 Advantages and Disadvantages of the Disposal

The Directors are of the view that the following non-exhaustive list of the advantages and disadvantages of the Disposal may be relevant to a Shareholder's decision on how to vote on the Resolution:

Advantages

Possible re-compliance with the ASX Listing Rules: If the Disposal is completed, the Directors will have the ability to seek a recapitalisation proposal and transactions that enable the Listing Rules to be complied with in the future. The Company will be better placed to seek new opportunities after the Disposal is completed and the Debt removed from the balance sheet.

Extinguishment of debts guaranteed by the Company: The Disposal will result in the Debts being extinguished. There is no certainty that the Company will be able to discharge the debt, and as such, if the Disposal does not occur, the Company remains exposed to those debts without sufficient means to meet repayment obligations.

Removal of Capital Intensive Commitments: The Subsidiaries hold licence interests in Romania that require significant expenditure in the next 12-18 months in order to preserve the validity of the licences. The expenditure for 2016 is estimated to be AU\$2,400,000. The Company does not currently have the financial standing to meet these capital intensive commitments.

Disadvantages

Disposal of main undertaking: The main undertaking of the Company will be disposed of if the Disposal is completed. This means that the Company will no longer have a project and will need to seek a suitable project to re-comply with the listing rules of ASX. There is no certainty that this will occur in a timely manner, or at all.

The proposed Disposal is not fair but reasonable in the opinion of the Independent Expert: The Independent Expert's Report included as Appendix C concludes that the proposed Disposal is not fair but reasonable to Shareholders not associated to GMI.

The Company may be suspended from the ASX Official List: If the Company is unable to find a new project within six months of the date of disposal in accordance with the guidance in ASX Listing Rule Guidance Note 12, the Company may be suspended from the Official List of ASX.

1.10 Future Activities and Direction on Completion of the Disposal of The Subsidiaries

If the Disposal completes, the Company will have no material principal asset. As such, the Company will likely be treated as having no material operating activities.

The Directors and management of the Company will be (from now, and if the Disposal completes, will continue) to investigate and identify opportunities for the Company.

If the Disposal completes, the Company expects that any significant new investment by the Company will, in all probability, be subject to Shareholder approval and the ASX will exercise its discretion to require the Company to re-comply with the requirements of Chapters 1 and 2 of the Listing Rules. There would be costs associated with re-complying with Chapters 1 and 2 of the Listing Rules, however, the Company may be required to incur these costs in any event, if it were to proceed to acquire a new project which is considered to result in a significant change to the nature and/or scale of its activities.

RESOLUTION 2 – PLACEMENT FACILITY

2.1 Background

The Company seeks prior Shareholder approval under Listing Rule 7.1 for the issue of up to 5,000,000 Shares (Placement Shares) at an issue price of ten cents per share (or, if a prospectus or offer information statement is issued in relation to the placement, before the date of signing of that document).

The Directors believe that Resolution 2 is in the best interests of the Company and recommend that Shareholders vote in favour of it.

Resolution 2 is a special resolution.

2.2 Listing Rule 7.3 Disclosure

For the purposes of Listing Rule 7.3, information regarding the placement facility is provided as follows:

- (a) The maximum number of securities that the Company may issue under the proposed placement facility is 5,000,000 Shares.
- (b) The Placement Shares may be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by an ASX waiver or modification of the Listing Rules).
- (c) The Placement Shares will be issued at an issue price per Share of ten cents (or, if a prospectus or offer information statement is issued in relation to the issue, before the date of signing of that document).
- (d) The identities of the persons to whom the Company proposes issuing the Placement Shares are not currently known and have not been ascertained. It is expected that the Placement Shares, if the placement proceeds, will be issued at the discretion of the Directors to institutional, professional and sophisticated investors. None of these persons will be related parties of the Company.
- (e) The Placement Shares will comprise fully paid ordinary shares of the Company ranking equally with all other fully paid ordinary shares of the Company.
- (f) The funds raised by the issue of Placement Shares will be used to fund acquisition costs for a new business for the Company and to provide working capital.
- (g) The issue of the Placement Shares may occur progressively.
- (h) A voting exclusion statement is included in the Notice.

APPENDIX B – DEFINITIONS

In this Explanatory Statement:

“**ASX**” means ASX Limited ACN 008 624 691.

“**Board**” means the board of Directors.

“**Business Day**” has the meaning given to it in the Listing Rules.

“**Chairman**” means the chairman of the Board.

“**Company**” means Zeta Petroleum plc ABN 24 154 575 872.

“**Completion**” means completion of the Disposal in accordance with the Sale and Purchase Agreement.

“**Debt Reduction**” has the meaning ascribed to that term in Section 1.4, namely the extinguishment of The Debt.

“**Director**” means a director of the Company

“**Disposal**” means the disposal by the Company of the entire issued share capital in Zeta Petroleum (Romania) srl and Zeta Petroleum (Suceava) srl the subject of Resolution 1.

“**Explanatory Statement**” means this Explanatory Statement.

“**Listing Rules**” means the official listing rules of the ASX.

“**Notice**” means the notice of meeting to which this Explanatory Statement is attached;

“**Sale and Purchase Agreement**” means the agreement between GMI and the Company in respect of the Disposal dated 11 January 2016 and summarised in Section 1.4.

“**Section**” means a section of this Explanatory Statement

“**Share**” means an ordinary fully paid ordinary share in the capital of the Company and

“**Shareholder**” has a corresponding meaning

“**The Debt**” has the meaning ascribed to that term in Section 1.1.

“**The Subsidiaries**” has the meaning ascribed to that term in Section 1.1.

APPENDIX C – STATEMENT OF FINANCIAL POSITION

	As at 30 June 15 £'000	Disposal of The Subsidiaries £'000	Pro forma balance after Disposal £'000
ASSETS			
Non-current assets			
Intangible assets	485	(485)	-
Property, plant and equipment	844	(844)	-
	1,329	(1,329)	-
Current assets			
Trade and other receivables	185	(142)	43
Cash and cash equivalents	201	-	266
	386	(142)	309
TOTAL ASSETS	1,715	(1,471)	244
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	290	-	290
Share premium	9,423	-	9,423
Share based payments reserve	482	-	482
Share options reserve	107	-	107
Capital Contribution Reserve	367	(367)	-
Foreign currency revaluation reserve	806	(927)	(122)
Retained losses	(11,356)	1,277	(10,013)
TOTAL EQUITY	119	(17)	167
Non-current liabilities			
Provisions	42	(42)	-
Loans	1,258	(1,258)	-
	1,300	(1,300)	-
Current liabilities			
Derivative financial liability	20	(20)	-
Trade and other payables	148	(6)	142
Loans	128	(128)	-
	296	(154)	142
TOTAL LIABILITIES	1,596	(1,454)	142
TOTAL EQUITY AND LIABILITIES	1,715	(1,486)	309

13 January 2016

The Directors
Zeta Petroleum PLC
1 Berkeley Street
LONDON UK W1J 8DJ

Dear Sirs

Summary of Opinion

In our opinion, taking into account the factors noted elsewhere in this report including the factors (positive, negative and other factors) noted in section 8 of this report, the proposal as outlined in paragraph 1.1 and Resolution 1 may on balance collectively be considered to be not fair but reasonable to those shareholders not associated with GMI at the date of this report.

RE: ZETA PETROLEUM PLC (“ZETA” OR “THE COMPANY”) (COMPANY NUMBER 05560854) ON THE PROPOSAL THAT SHAREHOLDERS APPROVE THE DISPOSAL OF 100% OF THE SHARES IN ZETA PETROLEUM (ROMANIA) SRL (“ZETA ROMANIA”) AND ZETA PETROLEUM (SUCEAVA) SRL (“ZETA SUCEAVA”) TO GM INVESTMENTS & CO LIMITED (“GMI”) FOR THE CONSIDERATION OF EXTINGUISHING IN FULL LOANS DUE TO GMI BY ZETA - MEETING OF SHAREHOLDERS PURSUANT TO AUSTRALIAN SECURITIES EXCHANGE (“ASX”) LISTING RULE 10.1

1. Introduction

1.1 We have been requested by the Directors of Zeta to prepare an Independent Expert’s Report to determine the fairness and reasonableness relating to the proposal as outlined in Resolution 1 to the Notice of Meeting (“Notice”) and the Explanatory Statement (Appendix A) (“ES”) attached to the Notice relating to the proposal to sell to GMI all of the shares in Zeta Romania (who also owns 100% of the issued capital of Zeta Petroleum (Bobocu) SRL (“Zeta Bobocu”) and Zeta Suceava (who collectively hold various interests in Romanian oil permits) as noted below and in Resolution 1 and ES. Collectively, Zeta Romania (and its subsidiary) and Zeta Suceava are known in this report as the Zeta Companies.

1.2 The Company holds a 100% beneficial interest in the issued capital of the Zeta Companies (except that Zeta Bobocu is owned by Zeta Romania). The main Romanian oil and gas assets of the Zeta Companies are as follows:

- 50% interest in the Suceava Gas Project – developed gas fields known as Climauti (in production), Dornesti (in production), Ruda -1 (in production) and SE-1 Granicesti Discovery Well. The operator of the fields is Raffles Energy SRL and Raffles Energy SRL owns the remaining 50% interest;
- 39% interest in the Jimbolia Oil Project – an oil and gas field. The operator of the field is NIS Petroleum (51% of this project) and the remaining 10% is owned by Aramax. Evaluations are being conducted as to whether to enter into production in 2016;
- 100% interest in the Bobocu Gas Project – a developed gas field but not currently operating (ceased production in 2001) and efforts have been made to farm out such project.

For the purposes of this report, we refer to the above collective interests as the Romanian Gas Interests. Further details on the Romanian Gas Interests are referred to in the Competent Person’s Report (“CPR”) noted in paragraph 1.10 below. A copy of the CPR has been lodged with the ASX and posted on the Company’s web site.

- 1.3 It is proposed that Zeta, will sell its sell its interest in the Zeta Companies to GMI for the total consideration of extinguishing all loans due by Zeta to GMI (that as at 29 February 2016 are expected to approximate £1,971,508 along with the Closing Payment ("Consideration"). The Closing Payment is the amount at the closing date (completion date) equal to the cash balances held by the Zeta Companies as at the Closing Date plus Zeta Suceava's share of monies held in the joint venture account with Raffles Energy SRL as at the Closing Date. Refer section 5 of this report for further details.

GMI is the largest shareholder in Zeta, owning 2,169,256 shares, that represents approximately 29.90% of the issued capital of Zeta as at 12 January 2016.

- 1.4 The proposed sale of the Zeta Companies (and effectively selling the major assets of the Zeta Group) to GMI is known, for the purpose of this report, as the Sale Transaction.

- 1.5 For the purpose of the ASX Listing Rules, a child entity is:

- (a) an entity which is controlled by a body corporate within the meaning of section 50AA of the Corporations Act; or
- (b) an entity which is a subsidiary of the body corporate.

For the purpose of Section 50AA of the Corporations Act, an entity controls another entity if it has the capacity to determine the outcome of decisions about the other entity's financial and operating policies. In assessing whether an entity has this capacity it is the practical influence the entity can exert (rather than the rights it can enforce) and the practice or pattern of behaviour affecting the other entity's financial or operating policies that are relevant factors to be considered. Given that the Sale Companies are 100% beneficially owned subsidiaries of the Company, the Zeta Companies are child entities of the Company for the purposes of the ASX Listing Rules.

For the purposes of ASX Listing Rule 10.1, an asset is substantial if its value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the ASX Listing Rules. The consideration payable under the Sale Transaction is in excess of 5% of the equity interests. The net equity interests of the Company as set out in the latest accounts given to ASX under the ASX Listing Rules (being the annual financial report ending 31 December 2014) was £647,000. As the consideration is 5% or more of the equity interests, the Sale Transaction concerns a substantial asset.

For the purposes of ASX Listing Rule 10.1, a substantial shareholder is a person who has a relevant interest (either directly or through its associates), or had at any time in the 6 months before the transaction, in at least 10% of the total votes attaching to the voting securities. For the purposes of ASX Listing Rule 10.1, an associate includes an entity that controls a body corporate.

As noted above, GMI owns approximately 29.90% of the issued capital of Zeta.

On the basis that:

- the Zeta Companies are child entities;
- the Sale Transaction is for a substantial asset; and
- GMI is a substantial shareholder of the Company,

the Company is required to seek Shareholder approval under ASX Listing Rule 10.1 in respect of the Sale Transaction.

- 1.6 Therefore a notice prepared in relation to a meeting of shareholders convened for the purpose of ASX Listing Rule 10.1 must be accompanied by an Independent Expert's Report stating whether the Sale noted under Resolutions 1 is fair and reasonable. To assist shareholders in making a decision on the Sale Transaction, the directors have requested that Stantons International Securities Pty Ltd prepare an Independent Expert's Report, which must state whether, in the opinion of the Independent Expert, the Sale Transaction as noted in Resolution 1 is fair and reasonable to the non-associated shareholders of Zeta (not associated with GMI).

1.7 Apart from this introduction, this report considers the following:

- Summary of opinion
- Implications of the proposals between Zeta and GMI
- Corporate history and nature of business
- Future direction of Zeta
- Value of consideration as to the Sale Transaction
- Consideration as to fairness and reasonableness of the Sale Transaction
- Conclusion as to fairness and reasonableness of the Sale transaction
- Shareholders Decision
- Sources of information
- Appendices A and B and Financial Services Guide

1.8 In determining the fairness and reasonableness of the Sale transaction pursuant to Resolution 1, we have had regard for the definitions set out by the Australian Securities and Investments Commission (“ASIC”) in its Regulatory Guide 111, “Content of Expert Reports”. Regulatory Guide 111 states that an opinion as to whether an offer is fair and/or reasonable shall entail a comparison between the offer price and the value that may be attributed to the securities under offer (fairness) and an examination to determine whether there is justification for the offer price on objective grounds after reference to that value (reasonableness). The concept of “fairness” is taken to be the value of the offer price, or the consideration, being equal to or greater than the value of the securities in the above mentioned offer. Furthermore, this comparison should be made assuming 100% ownership of the “target” and irrespective of whether the consideration is scrip or cash.

An offer is “reasonable” if it is fair. An offer may also be reasonable, if despite not being “fair”, there are sufficient grounds for security holders to accept the offer in the absence of any higher bid before the close of the offer.

Accordingly, our report in relation to Resolution 1 comprising the approval to dispose of the Sale Companies to GMI is concerned with the fairness and reasonableness of the proposal with respect to the existing non-associated shareholders of Zeta. This report is limited only to Resolution 1, and we do not report or opine on the other Resolution (Resolution 2) being put to the shareholders as part of the Notice.

1.9 **In our opinion, taking into account the factors noted elsewhere in this report including the factors (positive, negative and other factors) noted in section 8 of this report, the proposal as outlined in paragraph 1.1 and Resolution 1 may on balance collectively be considered to be not fair but reasonable to those shareholders not associated with GMI at the date of this report.**

1.10 The opinions expressed above in relation to Resolution 1 must be read in conjunction with the more detailed analysis and comments made in this report, including the January 2016 independent Competent Person’s Report on the Romanian Gas Assets held by the Zeta Companies (“Rockflow Valuation Report”) prepared by Rockflow Resources Limited (“Rockflow”), a copy of which has been lodged with ASX and posted on the Company’s web site.

2. Implications of the Proposal with GMI

2.1 As at 12 January 2016, there are 7,255,037 ordinary fully paid shares on issue in Zeta. The significant registered fully paid shareholders as at 31 December 2015, based on the top 20 shareholders list were disclosed as follows:

	No. of fully paid shares	% of issued fully paid shares
GMI	2,169,256	29.90
Hot Chilli Investments Pty Ltd	701,323	9.67
Spinnaker Management Resources Ltd	542,658	7.48
B Popescu	504,629	6.96
Cresthaven Investments	331,525	4.57
	4,249,391	58.58

The top 20 shareholders at 31 December 2015 owned approximately 83.39% of the ordinary issued capital of the Company.

2.2 As at 12 January 2016, the following options were on issue:

46,902	Exercisable at \$8 on or before 21 May 2017
25,000	Exercisable at \$8 on or before 11 January 2019
75,000	Exercisable at \$1.60 on or before 6 February 2021
25,000	Exercisable at \$1.60 on or before 6 February 2016
125,000	Exercisable at \$2 on or before 14 May 2020
136,000	Exercisable on or before 4 July 2021

2.3 If the Sale Transaction is completed by selling 100% interest in the Zeta Companies, Zeta's share structure would not change, however it would divest itself of the Zeta Companies and in effect the interests in the Romanian Gas Interests whilst being relieved of repaying GMI all debts owed by Zeta to GMI as at the date of the completion of the Sale Transaction (debts due to GMI at that time estimated to be \$4,099,566 (approximately £1,971,508 based on a AUS/UK exchange rate of AUS\$1-UK£0.4809 as at 8 January 2016).

By completing the Sale Transaction, Zeta would have no oil and gas interests and be debt free (just owing a small amount of creditors). The Company plans to seek new business opportunities in 2016.

2.4 The current Board of Directors is not expected to change in the near future following the passing of Resolution 1 at the proposed shareholders meeting. New directors may be appointed in the future as and when the need arises. The existing directors of Zeta are S P West, T W Osborne, B Popescu, O Cairns and G Hancock.

2.5 We disclose the unaudited consolidated Statement of Financial Position of the zeta Group as at 30 November 2015. We also disclose the unaudited pro-forma consolidated Statement of Financial Position A of the Zeta Group immediately following the sale of the Zeta Companies using the unaudited 30 November 2015 Zeta Group figures. The consolidated pro-forma statement of financial position is also after allowing for costs of selling the Zeta Companies and issuing the Notice of say £19,000.

	Zeta Consolidated 30 November 2015 £000's	Zeta Consolidated Pro-forma A 30 November 2015 £000's
Current Assets		
Cash and cash equivalents	88	107
Trade and other receivables	102	16
Loans to joint ventures	38	-
	228	123
Non Current Assets		
Plant or equipment and decommissioning assets	782	-
Intangibles Licence acquisition costs	514	-
	1,296	-
Total Assets	1,524	123
Current Liabilities		
Trade and other payables	110	102
Loans	209	-
	319	102
Non Current Liabilities		
Provisions	42	-
Loans	1,319	-
	1,361	-
Total liabilities	1,680	102
Net Assets (Liabilities)	(156)	21

	Zeta Consolidated 30 November 2015 £000's	Zeta Consolidated Pro-forma A 30 November 2015 £000's
Equity		
Issued capital, including share premium	9,713	9,713
Reserves (various)	1,756	956
Accumulated losses	(11,625)	(10,648)
Net Equity (Liabilities)	<u>(156)</u>	<u>21</u>

- 2.6 Based on the 30 November 2015 book values, this equates to a value per fully paid ordinary share (7,255,037 shares currently on issue) of approximately £nil (ignoring the value, if any, of non-booked tax benefits). The pro-forma consolidated balance sheet A may disclose net assets at £21,000 that approximates £0.0029 per share. The final net asset amount may differ, depending on the final cash at Completions and further funds may be received from the placement of shares as noted in Resolution 2.

3. Corporate History and Nature of Business

- 3.1 Zeta is a listed oil and gas exploration and development company on the ASX. Its significant assets as noted in announcements to the ASX to that date are the Romanian Gas Interests as noted in paragraph 1.2 above.

Further details are in announcements made by Zeta to the ASX up to 12 January 2016 and in the ES attached to the Notice and shareholders are encouraged to read recent reports on the various projects before determining whether to vote for or against Resolution 1 in the Notice. A copy of the CPR noted elsewhere in this report has been lodged with ASX and is also available for inspection on the Company's web site.

4. Future Directions of Zeta

- 4.1 We have been advised by the directors and management of Zeta that:

- There are no proposals currently contemplated either whereby Zeta will acquire any properties or assets from GMI or where Zeta would transfer any of its property or assets to GMI (other than the sale of the Zeta Companies to GMI and all debts owed to GMI extinguished);
- The composition of the Board is not expected to change in the short term as a result of the proposed Sale Transaction;
- No dividend policy has been set and it is not proposed to be set until such time as the Company is profitable and has a positive cash flow;
- The Company may seek new capital by way of share issues in 2016 and later;
- The Company will endeavour to seek new business opportunities (both a capital raising and a new material acquisition may need to take place so Zeta remains listed on the ASX).

5. Value of Consideration as to the Sale Transaction

- 5.1 The Company announced on 14 May 2014 that it had entered into a loan agreement with 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 ("First Tranche Loan").

On 10 September 2014, the Company announced that it had entered into a further loan agreement with GMI for AUS\$2,000,000 for a period of six months with a 10% coupon rate ("Second Tranche Loan").

In December 2014, agreement was reached to consolidate the First and Second Tranche Loans (to a Consolidated Loan) and the maturity date reset at 14 May 2020 with a coupon rate of 10% accruing daily, compounded quarterly and payable upon maturity unless otherwise converted into ordinary shares. The security on the First Tranche Loan was released. Repayment of the Consolidated Loan is in US dollars.

The Consolidated Loan may be converted to ordinary shares in Zeta following Zeta being listed on the London Stock Exchange ("LSE") with the authorities approved by shareholders as long as conversion will not result in GMI holding greater than 29.9% of the issued capital of the Company (after conversion). The conversion price has been set at the lower of a 20% discount to the issue price at admission of Zeta to the LSE or the volume weighted average share price of Zeta's shares as traded on the LSE during the five days prior to the conversion date.

On 27 May 2015, the Company entered into a loan facility agreement with GMI and under such agreement (2015 Loan Agreement) Zeta had the right at any time to draw upon the facility in instalment amounts of US\$100,000 at any time up to 30 November 2015. Interest is payable at 12.5% per annum with payment of the loan and interest to be made at any time but before 31 December 2015 ("Maturity Date"). At any time before the Maturity Date, GMI had the right to elect to add the loan and all accrued interest as a further tranche of the Consolidated Loan which is capable of being converted to ordinary shares in Zeta under certain circumstances as noted above.

On 12 January 2016 the Company announced that it had reached agreement with GMI for a further drawdown of €100,000 (US\$108,880) under the USD\$500,000 loan facility. Following this drawdown the total principal amount of the facility drawn-down was US\$408,880. This drawdown was permitted solely to enable Zeta to meet its funding obligations with respect to the Suceava licence in Romania so as to keep the licence in good standing. In the absence of this loan drawdown Zeta was not funded to meet this financial obligation.

5.2 As at 13 January 2016, the amount of the Consolidated Loan in UK sterling totals £1,893,794. It is expected that on completion (the loans are overdue) estimated on 29 February 2016, the loans and accrued interest will total approximately £1,971,508.

5.3 Given that the Sale Consideration is partly denominated in United States Dollars (USD\$), the actual amount received by Zeta for the Sale of the Zeta Companies will be subject to exchange rate fluctuations in comparison with the Australian Dollar (AUD\$) and UK Sterling.

We have calculated the fair value of the consideration receivable from GMI (assuming settlement on 29 February 2016) in respect of the Sale Companies to be assessed as below:

	Preferred £\$
Zeta Companies Consideration Receivable (Consolidated Loans eliminated to nil)	<u>1,971,508</u>

In addition, the Consideration includes the Closing Payment that is the amount at the closing date (completion date) equal to the cash balances held by the Zeta Companies as at the Closing Date plus Zeta Suceava's share of monies held in the joint venture account with Raffles Energy SRL as at the Closing Date.

It is estimated that the cash held by the Zeta Companies at the Closing Date and Zeta Suceava's share of monies held in the joint venture account with Raffles Energy SRL as at the Closing Date may approximate £47,000 (after conversion from Romanian currency to Pound Sterling).

	Preferred £
Zeta Companies Consideration Receivable (Consolidated Loans eliminated to nil)	1,971,508
Value of Closing Payment	<u>47,000</u>
Total Value of Consideration	<u>2,018,508</u>

The final consideration may be up or down from the preferred figure, depending on exchange rates. However, the difference is not expected to be material.

6. Basis of Valuation of the Zeta Companies

- 6.1 The usual approach to the valuation of an asset is to seek to determine what an informed, willing but not anxious buyer would pay to an informed, willing but not anxious seller in an open market.
- 6.1.1 In considering the proposals to allow the Sale of the Zeta Companies to GMI we have sought to determine if the consideration payable by GMI is fair and reasonable to the existing non-associated shareholders of Zeta.
- 6.1.2 The proposals to allow the Sale of the Zeta Companies to GMI would be fair to the existing non associated shareholders if the value of the consideration being offered by GMI is greater than or equal to the value of the Zeta Companies. Accordingly, we have sought to determine a theoretical value that could reasonably be placed on the Zeta Companies for the purposes of this report.
- 6.1.3 The valuation methodologies we have considered in determining the current technical value of the Zeta Companies shares are:
- Capitalised maintainable earnings/discounted cash flow;
 - Takeover bid - the price which an alternative acquirer might be willing to offer;
 - Adjusted net asset backing and windup value; and
 - The market value price of Zeta shares.

6.2 Discounted Cash Flows / Capitalised Maintainable Earnings

Maintainable earnings in valuing a business (as distinct from a company as a whole) are usually considered as either the earnings before interest, tax and depreciation ("EBITDA") that could be maintained in the future and is normally taken as an average of the past three to five years EBITDA's or is based on earnings (after interest and depreciation) after tax. The maintainable earnings methodology is used where there a company usually has a track record of profits. In this case, the Zeta Companies have no consistent maintainable earnings.

The discounted cash flow analysis ("DCF") has a strong theoretical basis, valuing a project/business on the net present value of its future cash flows. It requires an assessment of an appropriate discount rate, an analysis of the future cash flows, the capital structure and costs of capital and an assessment of the residual value of the business remaining at the end of the forecast period. This method of valuation is particularly appropriate for businesses of a start up nature where there is little historical basis for normalising the earnings of the business, or where it is anticipated that a business will have a finite life. The Zeta Companies are not of start up nature, and it is open to conjecture as to the life of the Romanian Gas Interests and as to whether some of the Romanian Gas Interests will enter or re-enter production. However, the independent assessment of potential economic value of the Romanian Gas Interests has been undertaken by Rockflow as noted below and we have relied on their assessment of potential economic value in determining the value of the Zeta Companies. Refer sections 6.5 to 6.8 below for further details.

6.3 Takeover Bid

Using a takeover bid methodology is not appropriate in these circumstances. We have been advised by the directors of Zeta that there are no previous bids for the Company or its subsidiaries. The directors do not believe that there would be any person with an interest in taking over the Company by way of a formal takeover bid at the current time. To our knowledge, there are no current bids in the market place and the directors of Zeta and ourselves have formed the view that there is unlikely to be any external takeover bids made for the Zeta Companies or Zeta in the immediate future but noting the only offer on the table is the offer for the Zeta Companies by GMI. We have no reason to consider that the Zeta directors' views are not currently accurate.

6.4 Net Asset Backing and Wind-Up Value

- 6.4.1 As there is no intention to wind up the Zeta Companies, we have not considered wind up values for the purposes of this report.

We set out below the unaudited Statements of Financial Position of the Zeta Companies as at 30 November 2015 in pound sterling after conversion from the Romanian currency.

	Zeta Romania (includes Zeta Bobocu) £	Zeta Suceava £
Current Assets		
Cash and cash equivalents	1,066	8,052
Trade and other receivables	83,815	1,546
Loans to joint ventures	-	38,073
	84,881	47,671
Non Current Assets		
Plant or equipment	1,649	822,088
Intangibles- Licence acquisition costs	471,705	-
	473,354	822,088
Total Assets	558,235	869,759
Current Liabilities		
Trade and other payables	8,126	-
	8,126	-
Non Current Liabilities		
Owing to Zeta	6,982,784	484,301
Provisions	-	42,263
	6,982,784	526,564
Total liabilities	6,990,910	526,564
Net Assets (Liabilities)	(6,432,675)	343,195

The consolidated net position is a negative £6,089,480. On settlement, Zeta will forgive all intercompany debt and the cash of the Zeta Companies will be assumed by Zeta and thus the net book assets following forgiveness and cash transfer may approximate £1,368,487. The final position may differ but it is not expected to be materially different.

The principal assets of the Zeta Companies comprise the Romanian Gas Interests. Such assets have limited lives and future profitability depends on the outcome of exploration and development programs that are not predictable. We consider that valuations of the underlying net assets are the most appropriate basis upon which to value the Zeta Companies. Accordingly, we have used the unaudited adjusted net assets of the Zeta Companies as at 30 November 2015, as set out above, as the basis for our valuations. The book values have been adjusted for the fair values of the underlying gas assets (the Romanian Gas Interests).

- 6.5 The Company has commissioned Rockflow to prepare valuations of the Zeta Companies interests in the Romania Gas Interests. The Rockflow Valuation Report (described as a Competent Person's Report) of January 2016 should be read in its entirety and a full copy of the Rockflow Valuation Report is available for inspection on the Company's web site or on the ASX market platform for Zeta. The Rockflow Valuation Report ascribes a range of values (potential economic values) to the interests to the Romanian Gas Interests and for the purposes of our report we have used the low, high and mid range market valuations referred to in the Rockflow Valuation Report.
- 6.6 We have used and relied on the Rockflow Valuation Report on the Romania Gas Interests and have satisfied ourselves that:
- Rockflow is a suitably qualified geological oil and gas consulting firm and has relevant experience in assessing the merits of oil and gas projects and preparing oil and gas asset valuations (also the author of the report, Mr Tom Gunnigham is suitably qualified and experienced);
 - Rockflow is independent from Zeta and GMI; and
 - Rockflow has employed sound and recognised methodologies in the preparation of the valuation report on the Romanian Gas Interests (using potential economic values).
- 6.7 Rockflow has provided a range of potential economic values of the Romanian Gas Interests based on P50 calculations (probable reserves and resources) as follows:

	Low US\$M	Preferred/Mid US\$M	High US\$M
Suceava Field (50%)	1.95	2.45	2.94
Suceava Field (50%) Contingent	2.72	4.13	5.53
Bobocu (100%)	25.98	41.42	56.94
Jimbolia (39%)	nil	nil	nil
	<u>30.65</u>	<u>48.00</u>	<u>65.41</u>

The low values are based on deregulated prices and represent a 25% discount to deregulated gas prices (as at 31 October 2015); the mid values are based on deregulated market prices and represent deregulated market gas prices; and the high values are based on a 25% premium to deregulated gas prices. Currently in Romania, gas prices are partially regulated but these are to be phased out and are expected to be completely deregulated by 2018. Full details on deregulation and pricing are contained in the Rockflow Valuation Report.

In UK Sterling, the low potential economic value would approximate £20.995 million, the mid potential economic value would approximate £32.880 million and the high potential economic value would approximate £44.805 million.

The current range of potential economic values using regulated price are disclosed in the Rockflow Valuation Report as US\$1.46 million for Suceava, US\$0.96 million for Suceava Contingent and US\$19.38 million for Bobocu.

In UK Sterling, using US\$/UK Stirling exchange rates as at 8 January 2016 of US\$1=UK£0.685, the ranges of values using the regulated prices are as follows:

	UK£M
Suceava Field (50%)	1.000
Suceava Field (50%) Contingent	0.658
Bobocu (100%)	13.275
Jimbolia (39%)	-
	<u>14,933</u>

Accordingly, the value of the potential economic value of the Romania Gas Interests based upon Rockflow's fair valuation, range from a low value of UK£14,933,000, to a high value of UK£44,805,000, with a preferred potential economic value of UK£32,880,000.

- 6.8 We have accepted on face value the other assets and liabilities and made no adjustments other than substituting the book values of the interests in Romanian Gas Interests with a range of fair potential economic values to the Romanian Gas Interests as ascribed by Rockflow.

	Low £	Preferred £	High £
Net assets (unaudited) at book values (combined the Sale Companies - refer paragraph 6.4.1)	(6,089,480)	(6,089,480)	(6,089,480)
Less carrying values of the Romanian Gas Interests	(471,705)	(471,705)	(471,705)
Add Fair potential economic values of the Romanian Gas Interests as noted above	14,933,000	32,880,000	44,805,000
Fair value of the Zeta Companies	<u>8,371,815</u>	<u>26,318,815</u>	<u>38,243,815</u>

As the intercompany debt will be forgiven and all cash assumed by Zeta, the range of values may lie in the range of approximately £15,839,000 (low) to £45,720,000 (high) with a mid value of approximately £33,786,000.

The potential economic values are just that- potential and are not market values. It is noted that the Zeta Companies need to raise and spend significant, very material CAPEX funds (US\$48,500,000 relating to Bobocu alone) in order to realise potential value from the Romanian Gas Interests. It is unlikely with the state of gas markets and the capital markets in general that Zeta could raise such funds. The market capitalisation of Zeta as at 12 January 2016 based on a share price of 8.2 cents for a Zeta share (albeit on low volumes) approximates AUS\$595,000 or approximately £285,000 or US\$415,000- materially different to the potential economic values.

7 Conclusion as to fairness on the proposal relating to the Sale Transaction

- 7.1 The proposal to sell the Zeta Companies for the Consideration noted in paragraph 5.3 is believed fair to Zeta's non-associated shareholders if the value of the consideration offered is equal to or greater than the value of the Zeta Companies being sold to GMI. The valuation of oil and gas interests and valuing future profitability and cash flows is extremely subjective as it involves assumptions regarding future events that are not capable of independent substantiation.
- 7.2 Given the preferred Consideration receivable of £2,018,508 (refer to paragraph 5.1) for the sale of the Zeta Tenements is below the preferred potential economic value of around £26,000,000, the transaction is considered to be not fair to the non-associated shareholders of Zeta.
- 7.3 **Using a potential economic value approach, the proposed sale of the Zeta Companies as outlined in Resolution 1 to the Notice is considered on balance to be not fair to the non associated shareholders of Zeta.**

8. Reasonableness of the Sale Transaction

- 8.1 We set out below some of the advantages and disadvantages and other factors pertaining to the proposed Sale Transaction.

Advantages

- 8.2 By entering into the Sale Transaction, debts to the extent of approximately £1,971,508 owing to GMI are extinguished to £nil and the Company may receive cash (the Closing Payments) of approximately £50,000. The Zeta Group as at 30 November 2015 had net liabilities of £156,710 and net working capital deficiency was around £91,000. Other liabilities, including debts owed to GMI as at 30 November 2015 totalled £1,361,000. In the current market it is time consuming and extremely difficult for oil and gas exploration companies such as Zeta to raise capital equity, and if raised, significant discounts to recent traded share prices may need to be offered. It is not uncommon to offer discounts in the current market of between 20% and 50%. Arguably it could be higher for oil and gas exploration/producer companies that are not profitable and have negative cash flows. By allowing the Company to enter into an improved net asset position, it may assist the Company in the future to raise additional working capital although the Company would have divested itself of all oil and gas interests.

The Company will need to seek new opportunities in the oil and gas industry or enter into new ventures outside such industry (that may require approval by shareholders to change the nature and scale of activities).

- 8.3 In the absence of the Sale Transaction with GMI, GMI could call up its Debt and force the sale of the Romanian Gas Interests and possibly force Zeta into some form of Administration. Zeta does not have sufficient funds to repay GMI. The Zeta Companies have 2016 Commitments pertaining to the Romanian Gas Assets of approximately £1,160,000 and in the absence of meeting these commitments, the licences may be forfeited (and Zeta would still owe the Debt to GMI).

The potential economic values are just that- potential and are not market values. It is noted that the Zeta Companies need to raise and spend significant, very material CAPEX funds (US\$48,500,000 relating to Bobocu alone) in order to realise potential values. It is unlikely with the state of gas markets and the capital markets in general that Zeta could raise such funds. The market capitalisation of Zeta as at 12 January 2016 based on a share price of 8.2 cents for a Zeta share (albeit on low volumes) approximates AUS\$595,000 or approximately £285,000 or US\$415,000- materially different to the potential economic values.

- 8.4 The Company divests itself of interests in oil and gas assets (in Romania) that are currently incurring losses and draining the Company's reserves. In order to survive, the Company has been borrowing cash funds from GMI.
- 8.5 As noted above, Zeta will have no oil and gas interests post the Sale Transaction but will temporarily become a shell company that may attract investors to place a new business opportunity into Zeta that may revitalise the Company and hopefully lead to a rise in the share price of a Zeta share. Backdooring another business into a listed shell has been very popular over the past 2 years.

Disadvantages

- 8.6 The Transaction Sale, as noted above is not considered to be fair. Zeta is to divest itself of a suite of oil and gas interests in Romania for a value which is less than the assessed potential economic value by Rockflow. The difference in the Consideration receivable for, and the preferred market valuation of the Sale Shares, is approximately £24,000,000, which is a relatively material amount compared to the value of the Consideration receivable by Zeta. Refer comments in paragraph 8.3 relating to the requirement to finance CAPEX costs and pay 2016 Commitments. It is noted that the current market capitalisation of Zeta approximates £453,000.
- 8.7 The Company would lose any future direct benefit of an increase in the market value of the oil and gas interests being sold (via selling all the Sale Shares), due to positive oil and gas exploration results or increased market sentiment or otherwise.

- 8.8 As noted above, post the Sale Transaction and in the absence of a new acquisition and capital raising, the Company will in effect be a “shell” company with no clear business activities. The Company, in order to maintain an ASX listing in 2016 will need to acquire a new business activity and raise new share equity. If a backdoor acquisition took place, the net working capital of the Company will need to be at least \$1,500,000 and the Company will need to comply with Chapters 1 and 2 of the ASX Listing Rules. There is no guarantee that a backdoor acquisition or any new acquisition can take place and new share equity raised. The Company would run the risk that its shares may be suspended from trading on ASX or even removed from the Official List of ASX. It is noted that ASX taking into account the Company’s financial position at the date of this report could at any time seek to suspend trading of Zeta shares on the ASX.

Other Factors

- 8.9 The final value of the Consideration receivable is subject to exchange rate fluctuations as noted elsewhere in this report. Accordingly, the Consideration may be in excess of, or below, the current preferred Consideration value receivable.
- 8.10 Zeta does not have sufficient cash to pay on-going and planned oil and gas exploration commitments and is heavily reliant on GMI for financing. There is no guarantee that GMI in the current circumstances will continue to assist in financing the Zeta Group (but may do so if GMI held ownership of the Zeta Companies). There is always the possibility that in the absence of sufficient cash, that Zeta could fall into some form of Administration. The sale of the Zeta Companies to GMI may reduce this possibility but in any event, Zeta would need to acquire a new business activity and raise new finance (as noted above). It is noted that Resolution 2 in the Notice seeks approval to raise up to \$500,000 (at 10 cents per share).

9. Conclusion as to Reasonableness

- 9.1 **In our opinion, taking into account the factors noted elsewhere in this report including the factors (positive, negative and other factors) noted in section 8 of this report, the proposal as outlined in paragraph 1.1 and Resolution 1 may on balance collectively be considered to be reasonable to those shareholders not associated with GMI at the date of this report.**

10. Shareholders Decision

- 10.1 Stantons International Securities Pty Ltd has been engaged to prepare an independent expert’s report setting out whether in its opinion the proposals as outlines in Resolution 1 and as more fully described in the ES are fair and reasonable and state reasons for that opinion. Stantons International Securities Pty Ltd has not been engaged to provide a recommendation to shareholders in relation to the proposals under Resolution 1 (and all other Resolutions). The responsibility for such a voting recommendation lies with the independent directors of Zeta.
- 10.2 In any event, the decision whether to accept or reject Resolution 1 (and the other Resolution) is a matter for individual shareholders based on each shareholder’s views as to value, their expectations about future market conditions and their particular circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If in any doubt as to the action they should take in relation to the proposal under Resolution 1 (and the other Resolution) shareholders should consult their own professional adviser.
- 10.3 Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Zeta. This is an investment decision upon which Stantons International Securities Pty Ltd does not offer an opinion and is independent on whether to accept the proposal under Resolution 1 (and the other Resolution). Shareholders should consult their own professional adviser in this regard.

11. Sources of Information

11.1 In making our assessment as to whether the proposal to effect the Sale of the Zeta Companies to GMI for the Consideration is fair and reasonable, we have reviewed relevant published available information and other unpublished information of the Company and its Romanian Gas Interests that is relevant to the current circumstances. In addition, we have held discussions with the management of Zeta about the present and future operations of the Company. Statements and opinions contained in this report are given in good faith but in the preparation of this report, we have relied in part on information provided by the directors and management of Zeta.

11.2 Information we have received includes, but is not limited to:

- Draft Notices and Explanatory Statement to Shareholders of Zeta prepared to 11 January 2016;
- Discussions with management and a director of Zeta;
- Details of historical market trading of Zeta ordinary fully paid shares recorded by ASX to 12 January 2016;
- Shareholding details of Zeta as at 31 December 2015;
- Announcements made by Zeta from 1 January 2014 to 12 January 2016;
- The cash flow forecasts of the Zeta Group to December 2016;
- Audited financial accounts of Zeta for the year ended 31 December 2014;
- Unaudited reviewed financial accounts of Zeta for the half year ended 30 June 2015;
- Unaudited financial statements of the Zeta Companies for the period 1 January 2015 to 30 November 2015;
- Estimated debt position of Zeta as at 13 January 2016 and as at 29 February 2016; and
- The Independent Valuation (potential economic values) of the Romania Gas Interests (Rockflow Valuation Report) of January 2016 (the Competent Person's Report).

11.3 Our report includes Appendix A along with our Financial Services Guide attached to this report.

Yours faithfully

STANTONS INTERNATIONAL SECURITIES PTY LTD
(Trading as Stantons International Securities)



John P Van Dieren - FCA
Director

AUTHOR INDEPENDENCE AND INDEMNITY

This annexure forms part of and should be read in conjunction with the report of Stantons International Securities Pty Ltd dated 13 January 2016, relating to the proposed sale of the Zeta Companies to GMI as outlined in paragraph 1.1 of the report and Resolution 1 in the Notice of Meeting to Shareholders and the ES proposed to be distributed to the Zeta shareholders in January 2016.

At the date of this report, Stantons International Securities Pty Ltd does not have any interest in the outcome of the proposals. There are no relationships with Zeta and GMI other than acting as an independent expert for the purposes of this report. Before accepting the engagement Stantons International considered all independence issues and concluded that there were no independence issues in accepting the assignment to prepare the Independent Experts Report. There are no existing relationships between Stantons International Securities Pty Ltd and the parties participating in the transaction detailed in this report which would affect our ability to provide an independent opinion. The fee to be received for the preparation of this report is based on the time spent at normal professional rates plus out of pocket expenses and is estimated at a maximum of \$23,000. The fee is payable regardless of the outcome. With the exception of the fee, neither Stantons International Securities nor John Van Dieren or Martin Michalik have received, nor will, or may they receive, any pecuniary or other benefits, whether directly or indirectly, for or in connection with the making of this report.

Stantons International Securities Pty Ltd does not hold any securities in Zeta or GMI. There are no pecuniary or other interests of Stantons International Securities Pty Ltd that could be reasonably argued as affecting its ability to give an unbiased and independent opinion in relation to the proposal. Stantons International Securities Pty Ltd, John Van Dieren and Martin Michalik have consented to the inclusion of this report in the form and context in which it is included as an annexure to the Notice.

QUALIFICATIONS

We advise Stantons International Securities Pty Ltd is the holder of an Australian Financial Services Licence (no 448697) under the Corporations Act 2001 relating to advice and reporting on mergers, takeovers and acquisitions that involve securities. The directors of Stantons International Audit and Consulting Pty Ltd are the directors of Stantons International Securities Pty Ltd. Stantons International Securities Pty Ltd has extensive experience in providing advice pertaining to mergers, acquisitions and strategic for both listed and unlisted companies and businesses.

Mr John van Dieren – FCA and Martin Michalik -ACA, the persons responsible for the preparation of this report, have extensive experience in the preparation of valuations for companies and in advising corporations on takeovers generally and in particular on the valuation and financial aspects thereof, including the fairness and reasonableness of the consideration offered.

The professionals employed in the research, analysis and evaluation leading to the formulation of opinions contained in this report, have qualifications and experience appropriate to the task they have performed.

DECLARATION

This report has been prepared at the request of the Directors of Zeta in order to assist them to assess the merits of the proposed sale of the Zeta Companies as outlined in Resolution 1 to the ES to which this report relates. This report has been prepared for the benefit of Zeta's shareholders and does not provide a general expression of Stantons International Securities Pty Ltd's opinion as to the longer term value of Zeta, its subsidiaries and their assets. Stantons International Securities Pty Ltd does not imply, and it should not be construed, that it has carried out any form of audit on the accounting or other records of the Zeta Group. Neither the whole nor any part of this report, nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement, without the prior written consent of Stantons International Securities to the form and context in which it appears.

DUE CARE AND DILEGENCE

This report has been prepared by Stantons International Securities with due care and diligence. The report is to assist shareholders in determining the fairness and reasonableness of the proposal set out in Resolution 1 to the Notice and each individual shareholder may make up their own opinion as to whether to vote for or against Resolution 1.

DECLARATION AND INDEMNITY

Recognising that Stantons International Securities Pty Ltd may rely on information provided by Zeta and its officers (save whether it would not be reasonable to rely on the information having regard to Stantons International Securities experience and qualifications), Zeta has agreed:

- (a) To make no claim by it or its officers against Stantons International Securities Pty Ltd (and Stantons International Audit and Consulting Pty Ltd) to recover any loss or damage which Zeta may suffer as a result of reasonable reliance by Stantons International Securities Pty Ltd on the information provided by Zeta; and
- (b) To indemnify Stantons International Securities Pty Ltd (and Stantons International Audit and Consulting Pty Ltd) against any claim arising (wholly or in part) from Zeta or any of its officers providing Stantons International Securities any false or misleading information or in the failure of Zeta or its officers in providing material information, except where the claim has arisen as a result of wilful misconduct or negligence by Stantons International Securities Pty Ltd.

A draft of this report was presented to Zeta directors for a review of factual information contained in the report. Comments received relating to factual matters were taken into account, however the valuation methodologies and conclusions did not alter.

**FINANCIAL SERVICES GUIDE
FOR STANTONS INTERNATIONAL SECURITIES PTY LTD
(Trading as Stantons International Securities)
Dated 13 January 2016**

1. Stantons International Securities ABN 42 128 908 289 and Financial Services Licence 448697 (“SIS” or “we” or “us” or “ours” as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

2. **Financial Services Guide**

In the above circumstances we are required to issue to you, as a retail client a Financial Services Guide (“FSG”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No: 418019;
- remuneration that we and/or our staff and any associated receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

3. **Financial services we are licensed to provide**

We hold an Australian Financial Services Licence which authorises us to provide financial product advice in relation to:

- Securities (such as shares, options and notes)

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

4. **General Financial Product Advice**

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

5. **Benefits that we may receive**

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither SIS, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

6. Remuneration or other benefits received by our employees

SIS has no employees and Stantons International Audit and Consulting Pty Ltd charges a fee to SIS. All Stantons International Audit and Consulting Pty Ltd employees receive a salary. Stantons International Audit and Consulting Pty Ltd employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

7. Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

8. Associations and relationships

SIS is ultimately a wholly subsidiary of Stantons International Audit and Consulting Pty Ltd a professional advisory and accounting practice. Stantons International Audit and Consulting Pty Ltd also trades as Stantons International that provides audit, corporate services, internal audit, probity, management consulting, accounting and IT audits.

From time to time, SIS (Stantons International Audit and Consulting Pty Ltd and/or their related entities may provide professional services, including audit, accounting and financial advisory services, to financial product issuers in the ordinary course of its business.

9. Complaints resolution

9.1 Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to:

The Complaints Officer
Stantons International Securities
Level 2
1 Walker Avenue
WEST PERTH WA 6005

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaints within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

9.2 Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited ("FOSL"). FOSL is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOSL are available at the FOSL website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited
PO Box 3
MELBOURNE VIC 8007

Toll Free: 1300 78 08 08
Facsimile: (03) 9613 6399

10. Contact details

You may contact us using the details set out above.

Telephone	08 9481 3188
Fax	08 9321 1204
Email	jvdieren@stantons.com.au

