Zeta Petroleum plc

ARBN 24 154 575 872

Interim Report

For the Half-Year Ended 30 June 2014

INTERIM REPORT FOR THE HALF YEAR ENDED 30 JUNE 2014

Page:

CORPORATE 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

COMPANY SECRETARY

B Hodges

REGISTERED OFFICES

United Kingdom

1 Berkeley Street
London
W1J 8DJ
United Kingdom

Australia

25 Franklin Street
Leederville
WA 6007
Australia

Romania

5th Floor, 4-6 Ion Bogdan Street
010539 Bucharest
Romania

AUDITOR

BDO LLP
55 Baker Street
London
W1U 7EU
United Kingdom

STOCK EXCHANGE LISTING

Australian Securities Exchange
Share code: ZTA

SHARE REGISTRARS

United Kingdom

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS99 6ZY
United Kingdom

Australia

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000
Australia

PLACE OF INCORPORATION

England

COMPANY NUMBER

5560854

WEBSITE

www.zetapetroleum.com

REPORT OF THE DIRECTORS FOR THE HALF YEAR ENDED 30 JUNE 2014

The directors present their report together with the unaudited financial statements for the six months ended 30 June 2014.

Directors

	Date appointed	Date resigned
J Hayward	17 Feb 2014	-
O Cairns	25 Sep 2013	-
B Popescu	25 Sep 2013	-
T W Osborne	31 Mar 2006	-
S P West	12 Sep 2005	-

Results and Dividends

The statement of profit or loss and other comprehensive income is set out on page 4 and shows a loss for the half year amounting to £586,000 (half year to June 2013: loss of £540,000). The directors do not recommend the payment of a dividend.

Principal Activities and Review of Operations

During the six months ended 30 June 2014 the Company continued to make progress on its portfolio of oil and gas exploration and production assets in Romania:

(i) Suceava Concession (50% Zeta Petroleum, 50% Raffles Energy (Operator))

The 2,403 sq km Suceava concession is located on the Moldovian platform, approximately 370 km north of Bucharest. The Suceava concession includes the producing Climauti Gas Field.

During the period Zeta and Raffles Energy ("the Partners") progressed the Dornesti Sud-1 gas to power project and expect testing to be completed in September with the first electricity to be produced in October 2014. After the Dornesti Sud-1 project has completed the Partners will commence the Ruda -1 exploration well followed by the SE-1 project. The initial stage of the SE-1 project is the re-entering and testing of the SE-1 discovery well. The SE-1 well drilled in 2005, tested at a stable rate of 25,500 m3/day (peak rate in excess of 33,000 m3/day).

During the period, production from the Climauti Gas Field remained at a stable rate of approximately 12,000m3/day which generated approximately £148,000 revenue to Zeta.

(ii) Jimbolia Concession (39% Zeta Petroleum, 51% NIS Petrol SRL (Operator), 10% Armax Gaz)

The Jimbolia Concession is located in the proven and producing eastern part of the Pannonian Basin and consists of two discoveries, Jimbolia Veche and Jimbolia Vest.

We are awaiting confirmation from the Operator of the expected date for further testing of the Jimbolia-100 well which was drilled to its target depth of 2,590 metres in 2013. This testing is the only material work requirement on the Jimbolia Concession for 2014, for which Zeta is fully carried by NIS.

REPORT OF THE DIRECTORS FOR THE HALF YEAR ENDED 30 JUNE 2014

The Jimbolia Concession has two hydrocarbon bearing intervals and a current Pmean contingent oil resource of 1.72MMbbls. Previous drilling by Petrom in 1983 identified the Pliocene VIII as an oil reservoir with a gas cap. This was penetrated by two wells, the Jimbolia-1, which flowed at rates up to 120 bbls/day and tested at a sustained rate of 50 bbls/day for 6 days and Jimbolia-6, in which tests indicate an oil leg with an oil density of 780kg/m3 (50° API).

On a wider basis, the Board believes there is additional potential in the Jimbolia Vest discovery which was tested, but not produced, over two intervals of the Lower Pliocene IV reservoir, with the lower interval (16m) flowing 33% CO_2, 61% CH_4 and condensate at rates of 196Mscf/d, and the upper interval (8m) testing gas (no flow rate details available).

(iii) Bobocu Concession (100% Zeta Petroleum)

The Bobocu Gas Field previously produced from 1977 until it was abandoned prematurely in 1995 and is located to the north of the Buzau valley, approximately 20km northeast of Buzau and 110km northeast of Bucharest.

The Company has begun the process of seeking a farm-in partner to assist with the development of this asset and currently has multiple companies reviewing technical data.

(iv) Other Opportunities

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

Financial Position

The Company's working capital, being current assets less current liabilities was £55,000 at 30 June 2014 (31 December 2013 – £188,000). Subsequent to period end on 10 September the Company announced that it had entered into a convertible loan agreement with GM Investment & Co. Limited, a substantial shareholder in the Company. The loan of AUD$2 million will be used to meet well commitments on the Suceava licence and to provide funding for working capital. The loan matures after six months and has a mandatory conversion into shares if the AIM admission is successful; the loan is repayable if Shareholder approval and successful admission to AIM is not achieved during this time period. The Group's ability to continue as a going concern for at least 12 months is reliant on conversion of the loan notes into shares at or before maturity, together with the successful commercial development of the Suceava asset into a three well producing asset.

This report has been made in accordance with a resolution of the Board of Directors.

By order of the Board

S P West
Director
10 September 2014

1 Berkeley Street
London W1J 8DJ
United Kingdom

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Note	**Unaudited 30 June 2014 £'000**	Unaudited 30 June 2013 £'000
Continuing operations			
Revenue		**148**	124
Cost of goods sold		**(85)**	(59)
Gross Profit		**63**	65
Exploration and evaluation expenses		**(8)**	(56)
Administrative expenses		**(641)**	(525)
Operating loss		**(649)**	(516)
Interest income		**-**	3
Other income		**7**	-
Financing costs		**(7)**	(1)
Loss before Taxation from continuing operations		**(586)**	(514)
Income tax		**-**	-
Loss for the period attributable to the equity holders		**(586)**	(514)
Loss per ordinary share – basic and diluted	3	**(0.25p)**	(0.38p)
Loss for the period		**(586)**	(514)
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**163**	(242)
Total comprehensive loss for the period		**(423)**	(756)

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	Unaudited 30 June 2014 £'000	Audited 31 December 2013 £'000
ASSETS			
Non-current assets			
Intangible assets	4	**599**	634
Property, plant & equipment	5	**686**	530
		1,285	1,164
Current assets			
Trade and other receivables	6	**201**	230
Cash and cash equivalents		**203**	88
		404	318
Total assets		**1,689**	1,482
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	7	**234**	234
Share premium		**9,279**	9,279
Share based payments reserve	8	**1,373**	1,434
Share options reserve		**131**	131
Foreign currency translation reserve		**458**	295
Retained losses		**(10,550)**	(10,025)
Total equity		**925**	1,348
Non-current liabilities			
Provisions		**4**	3
Loans and borrowings		**411**	-
		415	3
Current liabilities			
Trade and other payables		**255**	131
Loans and borrowings		**94**	-
		349	131
Total liabilities		**764**	134
Total equity and liabilities		**1,689**	1,482

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	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 2014	**234**	**9,279**	**1,434**	**131**	**295**	**(10,025)**	**1,348**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(586)**	**(586)**
Other comprehensive loss	**-**	**-**	**-**	**-**	**163**	**-**	**163**
Total comprehensive income	**-**	**-**	**-**	**-**	**163**	**(586)**	**(423)**
Write-back of share options cancelled during period	**-**	**-**	**(61)**	**-**	**-**	**61**	**-**
As at 30 June 2014	**234**	**9,279**	**1,373**	**131**	**458**	**(10,550)**	**925**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 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 period	-	-	-	-	-	(514)	(514)
Other comprehensive income	-	-	-	-	(242)	-	(242)
Total comprehensive income	**-**	**-**	**-**	**-**	**(242)**	**(514)**	**(756)**
Write-back of share options lapsed during period	-	1,993	-	(1,993)	-	-	-
Share based payments	-	-	228	-	-	-	228
As at 30 June 2013	**133**	**8,825**	**1,424**	**103**	**145**	**(9,265)**	**1,365**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited 30 June 2014 £'000	Unaudited 30 June 2013 £'000
Operating activities		
Loss after tax	**(586)**	(514)
Adjustment to reconcile loss to net cash outflow from operating activities		
Depreciation	**31**	44
Amortisation	**19**	21
Decommissioning	**1**	-
Share based payments	**-**	228
Interest on loans	**7**	-
Foreign exchange loss	**185**	(287)
Interest income	**-**	(3)
Working capital adjustments:		
Decrease in receivables and prepayments	**29**	443
Increase in provisions	**1**	1
Increase/(decrease) in trade and other payables	**124**	(397)
Net cash outflow from operating activities	**(189)**	(464)
Investing activities		
Purchase of property, plant and equipment	**(200)**	(22)
Interest income	**-**	3
Net cash outflow from investing activities	**(200)**	(19)
Financing activities		
Proceeds from loans and borrowings	**504**	-
Finance lease payments	**-**	(9)
Net cash inflow/(outflow) from financing activities	**504**	(9)
Net increase/(decrease) in cash and cash equivalents	**115**	(492)
Cash and cash equivalents at the beginning of period	**88**	559
Effect of foreign exchange rates	**-**	3
Cash and cash equivalents at the end of period	**203**	70

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE SIX MONTHS FINANCIAL STATEMENTS

1. Corporate Information

This interim financial report of Zeta Petroleum Plc and controlled entities was authorised for issue in accordance with a resolution of the Board of Directors on 10 September 2014. Zeta Petroleum Plc is a company limited by shares and incorporated and domiciled in the United Kingdom whose shares are publically traded on the Australian Stock Exchange.

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.

2. Summary of significant accounting policies

Basis of preparation

The half-year report is a general purpose financial statement, which has been prepared in accordance with the requirements of IAS 34 "Interim financial reporting".

The half-year report has been prepared on a historical cost basis, except where applicable for financial assets that have been measured at fair value. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The half-year financial report does not include all notes of the type normally included in the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report. The half-year financial report set out above does not constitute statutory accounts within the meaning of the Australian Stock Exchange.

The Company's working capital, being current assets less current liabilities was £55,000 at 30 June 2014 (31 December 2013 – £188,000). Subsequent to period end on 10 September the Company announced that it had entered into a convertible loan agreement with GM Investment & Co. Limited, a substantial shareholder in the Company. The loan of AUD$2 million will be used to meet well commitments on the Suceava licence and to provide funding for working capital. The loan matures after six months and has a mandatory conversion into shares if the AIM admission is successful; the loan is repayable if Shareholder approval and successful admission to AIM is not achieved during this time period. The Group's ability to continue as a going concern for at least 12 months is reliant on conversion of the loan notes into shares at or before maturity, together with the successful development of the Suceava asset into a three well producing asset.

The Directors are confident that AIM admission can be achieved, based upon progress to date, which will mean the $2m loan is mandatorily convertible. Additionally the directors are confident that the work programs being undertaken with the GMI funds will lead to successful commercial production within 12 months. However, there can be no certainty that these transactions will complete. These conditions indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

The half-year financial report should be read in conjunction with the annual Financial Report of Zeta Petroleum plc as at 31 December 2013 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial information for the year ended 31 December 2013 does not constitute the full statutory accounts for that period. The

NOTES TO THE SIX MONTHS FINANCIAL STATEMENTS

Annual Report and Financial Statements for 2013 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statement for 2013 was unqualified and drew attention to the uncertainty around the Group continuing as a going concern by way of emphasis, it did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by Zeta Petroleum plc during the half year ended 30 June 2014 in accordance with the continuous disclosure obligations under the Australian Stock Exchange.

The accounting policies and methods of computation adopted in the Group's preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report for the year ended 31 December 2013. For the current period, the Group has adopted a number of revised Standards and interpretations.

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*
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
IFRS 15	Revenue from customer contracts	1 January 2017
IFRS 9	Financial instruments	1 January 2018

* Effective date 1 January 2014 for the EU

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

NOTES TO THE SIX MONTHS FINANCIAL STATEMENTS

3. Loss per share

	30 June 2014 £'000	30 June 2013 £'000
Loss for the year attributable to the equity holders	**(586)**	(514)

Basic and diluted loss per share is calculated on the loss for the period attributable to equity holders of the parent of £586,000 (30 June 2013: £514,000) and divided by the weighted average of 234,362,250 (30 June 2013: 136,029,485) ordinary shares.

4. Intangible assets

	Licence Acquisition Costs £'000	**Total £'000**
GROUP		
Cost:		
As at 1 January 2014	**956**	**956**
Effect of movement in foreign exchange	**(25)**	**(25)**
At 30 June 2014	**931**	**931**
Amortisation:		
As at 1 January 2014	**(322)**	**(322)**
Provided in the period	**(19)**	**(19)**
Effect of movement in foreign exchange	**9**	**9**
At 30 June 2014	**(332)**	**(332)**
Net book value at 30 June 2014	**599**	**599**
Cost:		
As at 1 January 2013	942	942
Effect of movement in foreign exchange	14	14
At 31 December 2013	956	956
Amortisation:		
As at 1 January 2013	(278)	(278)
Provided in the year	(41)	(41)
Effect of movement in foreign exchange	(3)	(3)
At 31 December 2013	(322)	(322)
Net book value at 31 December 2013	634	634

On 13 May 2014 the Company entered into a loan agreement with GM Investment & Co. Limited for US$850,000 (£503,880) which is secured against the Intangible Assets and Property, Plant and Equipment of the Group and Company.

NOTES TO THE SIX MONTHS FINANCIAL STATEMENTS

5. Property, Plant and Equipment

	GROUP			
	Office Equipment £'000	Oil & Gas Assets £'000	Motor Vehicles £'000	Total £'000
Cost:				
As at 1 January 2014	**43**	**633**	**-**	**676**
Additions	**1**	**200**	**-**	**201**
Effect of movement in foreign exchange	**1**	**(19)**	**-**	**(18)**
As at 30 June 2014	**45**	**814**	**-**	**859**
Depreciation:				
As at 1 January 2014	**(40)**	**(106)**	**-**	**(146)**
Provided in the period	**(2)**	**(29)**	**-**	**(31)**
Effect of movement in foreign exchange	**2**	**2**	**-**	**4**
As at 30 June 2014	**(40)**	**(133)**	**-**	**(173)**
Net book value at 30 June 2014	**5**	**681**	**-**	**686**
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
Depreciation:				
As at 1 January 2013	(35)	(43)	(7)	(85)
Provided in the period	(5)	(63)	(7)	(75)
Disposals	-	-	14	14
As at 31 December 2013	(40)	(106)	-	(146)
Net book value at 31 December 2013	3	527	-	530

On 13 May 2014 the Company entered into a loan agreement with GM Investment & Co. Limited for US$850,000 (£503,880) which is secured against the Intangible Assets and Property, Plant and Equipment of the Group and Company.

NOTES TO THE SIX MONTHS FINANCIAL STATEMENTS

6. Trade and Other Receivables

	30 June 2014 £'000	31 December 2013 £'000
Amounts due within one year:		
VAT receivable	**70**	95
GST receivable	**2**	1
Other receivables	**58**	95
Amounts owed from joint venture	**68**	31
Prepayments	**3**	8
Total amounts due within one year	**201**	230

7. Issued capital

Group and Company:	**30 June 2014 Number**	**30 June 2014 £'000**	31 December 2013 Number	31 December 2013 £'000
Allotted, issued and fully paid:				
As at start of period	**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[ii]	**-**	**-**	15,304,500	15
As at end of period	**234,362,250**	**234**	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.

8. Share Based Payments

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

Group and Company:	**30 June 2014 £'000**	30 June 2013 £'000
Expense arising from equity-settled share-based payment transactions	**-**	228
Total expense arising from share-based payment transactions	**-**	228

The share-based payment plans are described below.

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. 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.

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. The contractual life of each option granted ranges from three to seven years. There are no cash settlement alternatives. Volatility was determined by calculating the volatility for four similar listed companies and applying the average of the four volatilities calculated.

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

NOTES TO THE SIX MONTHS FINANCIAL STATEMENTS

8. Share Based Payments *continued*

Group and Company:	30 June 2014 Number	30 June 2014 WAEP[1] pence	31 December 2013 Number	31 December 2013 WAEP[1] pence
Outstanding at the beginning of the period	**88,146,348**	**7**	72,038,580	14
Granted during the period	**10,126,506**	**2**	57,850,008	2
Lapsed during the period	**(7,350,000)**	**2**	(41,742,240)	11
Cancelled during the period	**(700,000)**	**2**	-	-
Outstanding at the end of the period	**90,222,854**	**6**	88,146,348	7
Exercisable at the end of the period	**87,222,854**	**6**	88,146,348	7

[1]weighted average exercise price

The weighted average remaining contractual life for the share options outstanding as at 30 June 2014 is 3.89 years (31 December 2013: 4.19 years). The weighted average fair value of options granted during the period was 0.003 pence (31 December 2013: 0.05 pence). The exercise price for options outstanding at the end of the period was 2 to 11 pence (31 December 2013: 2 – 19 pence).

The following table lists the inputs to the models used for the two plans for the period ended 30 June 2014 and the year ended 31 December 2013:

	30 June 2014 EMP	30 June 2014 NEMP	2013 EMP	2013 NEMP
Expected volatility %	**34.73**	**34.73**	-	69.75
Risk-free interest rate %	**2.44**	**2.44**	-	2.442-2.533
Expected life of options (years)	**7**	**2-6**	-	0.8-1.8
Weighted average share price pence	**-**	**-**	-	2
Expected dividend yield	**-**	**-**	-	-
Model used	**Black Scholes**	**Black Scholes**	Black Scholes	Black Scholes

NOTES TO THE SIX MONTHS FINANCIAL STATEMENTS

9. 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 table presents certain asset information regarding the Group's geographical segments for the period ended 30 June 2014 and the year ended 31 December 2013:

	Unaudited 30 June 2014 £'000	Audited 31 December 2013 £'000
SEGMENT ASSETS		
United Kingdom	**253**	187
Romania	**1,436**	1,295
	1,689	1,482
SEGMENT LIABILITIES		
United Kingdom	**753**	109
Romania	**9**	25
	764	134

During the period there was £200,000 of capital expenditure relating to the Dornesti Sud-1 gas to power project on the Suceava licence.

Revenue was generated from gas sales in Romania and administrative expenses were incurred in both the United Kingdom and Romania.

10. Financial Instruments

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.

11. Related Party Transactions

On 13 May 2014 the Company entered into a loan agreement with GM Investment & Co. Limited ("GMI"), a major shareholder in the Company. The loan sum was for US$850,000 which is secured against the Intangible Assets and Property, Plant and Equipment of the Group and Company. The loan is for a period of 48 months, has a 10% coupon with interest being accrued monthly and paid upon maturity with monthly repayments to begin in November 2014. Under terms of the loan GMI was granted options over 5,000,000 shares in the Company at an exercise price of 5 Australian cents per share, exercisable at any time over a six year period.

As at 30 June 2014 there was a payment of AUD$9,600 (£5,304) outstanding to Pursuit Capital in which Oliver Cairns (Non-Executive Director) has a beneficial interest. This amount is commission payable on funds raised in the 2013 rights issue.

NOTES TO THE SIX MONTHS FINANCIAL STATEMENTS

12. Post balance sheet events

On 10 September 2014 the Company announced that it had entered into a loan agreement with GMI, for a loan of AUD$2 million. The loan is for a period of 6 months has a coupon of 10% with all interest accrued and payable on maturity. The loan contains a clause whereby GMI will be obligated to convert the entire principal and accrued interest into ordinary shares in the Company at a conversion price that is the lower of a 20% discount to the price of the Company's shares entry onto the AIM market, or the 5 day volume weighted average price the Company's shares are traded on AIM at Conversion Date. The obligation to convert is contingent upon *inter alia* receiving approval from shareholders and admission to AIM.

DIRECTORS DECLARATION

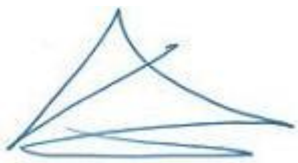
The Directors confirm to the best of their knowledge that:

a) The unaudited set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU;

b) The interim financial statements and associated notes give a true and fair view of the group's financial position as at 30 June 2014 and of its performance for the half year ended on that date; and

c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Stephen West
Director

10 September 2014

INDEPENDENT REVIEW REPORT TO ZETA PETROLEUM PLC

Introduction

We have been engaged by the group to review the set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the Consolidated Statement of Profit or loss and other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash flows and explanatory notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the half-yearly report in accordance with the rules of the Australian Stock Exchange.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The half-yearly report is prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the Australian Stock Exchange and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENT REVIEW REPORT TO ZETA PETROLEUM PLC

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with the rules of the Australian Stock Exchange and International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

Emphasis of matter – Going concern

In forming our conclusion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the Group's ability to continue as a going concern. The Company's working capital, being current assets less current liabilities was £55,000 at 30 June 2014 (31 December 2013 – £188,000). Subsequent to period end on 10 September the Company announced that it had entered into a convertible loan agreement with GM Investment & Co. Limited, a substantial shareholder in the Company. The loan of AUD$2 million will be used to meet well commitments on the Suceava licence and to provide funding for working capital. The loan matures after six months and has a mandatory conversion into shares if the AIM admission is successful; the loan is repayable if Shareholder approval and successful admission to AIM is not achieved during this time period. The Group's ability to continue as a going concern for at least twelve months is reliant on conversion of the loan notes into shares at or before maturity, together with the successful commercial development of the Suceava asset into a three well producing asset.

These conditions indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

BDO LLP

BDO LLP
Chartered Accountants
Location
United Kingdom
10 September 2014

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