ZETAPETROLEUMPLC

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

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GENERAL INFORMATION

DIRECTORS

S P West
Non-Executive Chairman

T W Osborne
Non-Executive Director

S Trevisan
Non-Executive Director

G Hancock
Non-Executive Director

JOINT COMPANY SECRETARIES

B Hodges
F Hudson

LOCAL AGENT – AUSTRALIA

F Hudson

REGISTERED OFFICE – UNITED KINGDOM

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London
W1J 8DJ
United Kingdom
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REGISTERED OFFICE – AUSTRALIA

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Australia

AUDITOR

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London
W1U 7EU
United Kingdom

STOCK EXCHANGE LISTING

Australian Securities Exchange
Share code: ZTA

SHARE REGISTRARS

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Level 11, 172 St Georges Terrace
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PLACE OF INCORPORATION

England

COMPANY NUMBER

5560854

WEBSITE

www.zetapetroleum.com

CHAIRMAN'S STATEMENT

The year under review saw the completion of the sale of the Company's Romanian Subsidiaries to a major shareholder GM Investment & Co. Limited ("GMI") in exchange for debt settlement.

The Company completed the sale of its Romanian oil & gas assets to GMI through the disposal by the Company of the entire issued share capital in Zeta Petroleum (Romania) SRL and Zeta Petroleum (Suceava) SRL, in exchange for full settlement of all outstanding debt owed to GMI on 18 July 2016, while retaining a 39% interest in the Jimbolia licence. The completion of the SPA resulted in a gain on disposal of £2,164,000 primarily due to the size of the loans exceeding the carrying value of the assets being disposed of.

The SPA (as amended) completed on 18 July 2016 with all debt owed by the Company to GMI being settled in full upon completion.

Production from the Suceava concession to the date of disposal totalled 0.1 Bcf of gas during the period. Revenues generated from gas production from the Climauti and Ruda-1 wells combined with revenues from electricity production from the Dornesti Sud-1 well financed Romanian corporate overheads.

NIS Gazprom Neft, the Operator of the Jimbolia licence commenced a gas development project as an exclusive operation. Zeta retains all of its rights to participate in future exploration projects on the concession.

Outlook

The Company retains its rights to participate in future exploration activities in the Jimbolia licence and with it retains a 39% interest. In addition the Company continues to assess other oil and gas opportunities that may complement and enhance the current portfolio. With an experienced team the Company is confident of securing additional assets.

Chairman
29 March 2017

BOARD OF DIRECTORS

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

Stephen West
Independent Non-Executive Chairman

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

Mr West has been a non-executive director of the Company for 12 years and the Chairman of the Company for 3 years.

Timothy Osborne
Non-Executive Director

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

Mr Osborne has been a non-executive director of the Company for 11 years. He is a member of the Company's Audit committee.

Simon Trevisan– appointed 28 July 2016
Non-Executive Director

Mr Trevisan is the managing director of the Transcontinental Group including TRG Properties Pty Ltd. He has 20 years' experience in public and private investments, corporate finance and management of large public and private businesses. He has been responsible for the funding and management of a number of public companies and TRG Properties' substantial property investments. His experience includes the establishment and listing of Mediterranean Oil & Gas plc, an AIM listed oil and gas company with production and a substantial oil discovery in Italy. Mr Trevisan was Executive Chairman of ASX listed gold explorer Aurex Consolidated Ltd and a founding executive director of ASX-listed Ausgold Limited and AssetOwl Limited (formerly Regalpoint Resources Ltd). He was also responsible for arranging debt funding for the development of in excess of $500 million of property and significantly involved in arranging and drawing down one of the first foreign bank project facilities for a resources development in Indonesia.

Mr Trevisan is currently a director of ASX listed medical devices company, Neurotech International Ltd, Technology Services company AssetOwl Limited and of BMG Resources Ltd. He is a board member of not for profit St George's College Foundation.

Mr Trevisan is the Chairman of the Company's Audit Committee.

Greg Hancock
Independent Non-Executive Director

Mr Hancock has over 25 years experience in capital markets practicing in the area of Corporate Finance. He has extensive experience in both Australia and the United Kingdom. In this time he has specialised in mining and natural resources and has a background in the finance and management of small companies.

Mr Hancock is currently a director of ASX listed companies Ausquest Ltd, where he serves as Chairman, Strata-X Energy Ltd as non-executive director and BMG Resources Ltd., as non-executive difector.

Mr Hancock has been a non-executive director of the company for 2 years.

STRATEGIC REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their strategic report on the Company for the year ended 31 December 2016.

ASSET DISPOSAL

As detailed in the Chairman's statement the Company completed the sale of its Romanian oil & gas assets to GMI through the disposal by the Company of the entire issued share capital in Zeta Petroleum (Romania) SRL and Zeta Petroleum (Suceava) SRL, in exchange for full settlement of all outstanding debt owed to GMI on 18 July 2016, while retaining a 39% interest in the Jimbolia licence. The completion of the SPA resulted in a gain on disposal of £2,164,000 primarily due to the size of the loans exceeding the carrying value of the assets being disposed of.

OBJECTIVES

The Company's objective is to create shareholder value by seeking new transactions for the Company.

CORPORATE AFFAIRS

On 27 July 2016 the Company issued a total of 1,800,000 new ordinary fully paid CHESS Depository Interests ("CDI") raising A$108,000 pursuant to the signing of a Placing Agreement ("Placing") with the Transcontinental Group. The CDIs under the Placing were issued within the Company's existing placement capacity under LR7.1 and LR7.1A at A$0.06 with one free attaching unlisted options exercisable at A$0.10 with an expiry date of 30 September 2019 to be issued for every two new CDIs subscribed for. The issue of options was subject to shareholder approval which was received on 14 September 2016 at a General Meeting of the Company.

On 27 July 2016 the Company announced its intention to undertake a pro rata renounceable Rights Issue ("Rights Issue") on the basis of two new CDIs for every one CDI or ordinary share held by Zeta shareholders at a cost of A$0.06 per CDI, with one free attaching option to be issued for every two new CDIs subscribed for exercisable at A$0.10 each on or before 30 September 2019 to raise a total of A$1.08 million before costs.

The Rights Issue offered up to a maximum of 18,110,074 new CDIs and 9,055,037 free attaching options.

On 28 July 2016 2014 Mr Simon Trevisan was appointed to the Board as a Non-Executive Director replacing Mr Bogdan Popescu who resigned from the Board on the same date. On 24 November Mr Oliver Cairns resigned from the Board as a Non-Executive Director.

On 10 October 2016 the Company announced the placing of 10,761,565 new CDIs and 5,380,782 free attaching options exercisable at A$0.10 each on or before 30 September 2019 under the Rights Issue and shortfall raising a total of A$645,694 (before costs).

On 25 October 2016 the Company announced the completion of the Rights Issue shortfall placing 7,348,509 new CDIs and 3,674,255 free attaching options exercisable at A$0.10 each on or before 30 September 2019 under the Rights Issue Shortfall raising a total of A$440,910 (before costs). Upon completion of this placement the Rights Issue was fully subscribed.

As at 15 March 2017 the Company maintained a cash position of A$620,094 and retains its rights to participate in future exploration activities in the Jimbolia licence. The Company continues to assess other oil and gas opportunities that may complement and enhance the current portfolio. With an experienced team the Company is confident of securing additional assets.

KEY PERFORMANCE INDICATORS

During 2016 the Company continued to meet all work requirements on its existing licence and ensured that the Company maintained enough cash reserves to finance operational and working capital commitments through the issue of equity.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Specific risks that that the Company faces are:

Investment Risk:	The risk that the Company's is not able to identify and acquire investment opportunities that will generate shareholder value. The Company has an experienced Board with extensive experience in asset identification and acquisition to mitigate this risk.
Discovery Risk:	Risk that no economically producible oil or gas will be discovered or found to be present in the Company's exploration licence area. The Company attempts to mitigate this risk by undertaking sufficient due diligence where warranted to help ensure opportunities are subjected to proper evaluation.
Capital Intensive Business:	The drilling of wells to discover whether there is oil or gas is a highly capital intensive business and will require the Company to raise capital in the future. The directors regularly review cash flow requirements to ensure the Company can meet financial obligations as and when they fall due.
Natural Gas and Oil Price:	The Company's asset value and economic viability of its exploration projects depend on the price of natural gas and oil. The Company's ability to raise funds in the future is therefore likely to be sensitive to the price of natural gas and oil.
Environmental Regulations:	The exploration, development and production of natural gas and oil can be hazardous to the environment. The Projects are subject to Romanian laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all exploration projects, the Projects may have a variety of environmental impacts should development proceed. The Company intends to conduct its activities in an environmentally responsible manner. However, the Company could be subject to liability due to risks inherent to its activities. The Company

STRATEGIC REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

	may incur substantial costs for environmental rehabilitation, damage control and losses by third parties resulting from its operations.
Government Regulations:	The security of tenure over the Company's asset may be adversely affected by change in government regulations in Romania.
	The Company attempts to mitigate this risk by maintaining close working relationships with government agencies, keeping abreast of any pending or potential change in regulations and engaging the services of appropriately qualified and experienced legal counsel as and when required.

DIVERSITY

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

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

Proportion of women	Actual	Objective
Organisation as a whole	17%	50%
Executive management team	17%	20%
Board	Nil	20%

By order of the Board

S P West
Chairman and Director
29 March 2017

1 Berkeley Street
London, W1J 8DJ
United Kingdom

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report together with the audited financial statements for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The consolidated income statement is set out on page 15 and shows a profit for the year amounting to £1,955,000 (2015 – loss of £1,040,000). The Company income statement is set out on page 17 and shows a profit for the year amounting to £858,000 (2015 – loss £1,463,000). The directors do not recommend the payment of a dividend.

DIRECTORS' MEETINGS

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

	Board Meetings		Audit Committee Meetings	
	Number held and entitled to attend	Number attended	Number held and entitled to attend	Number attended
Stephen West	15	14	N/A	N/A
Bogdan Popescu	12	9	N/A	N/A
Timothy Osborne	15	13	2	2
Oliver Cairns	15	14	2	2
Greg Hancock	15	15	N/A	N/A
Simon Trevisan	3	3	0	0

Mr Bogdan Popescu and Mr Oliver Cairns were directors of the company from the commencement of the financial year until their retirements on 28 July and 24 November respectively.

Mr Simon Trevisan was appointed to the board on 28 July. Mr Trevisan was subsequently appointed as Chairman of the Audit Committee, taking over this position from Mr Oliver Cairns.

POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in Note 28 to the financial statements.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

SHARE CAPITAL

Details of the Company's issued share capital as at 31 December 2016 are set out in Note 17 to the financial statements.

GOING CONCERN

The financial statements have been prepared on a going concern basis. As at 31 December 2016 the Company had available funds totalling £405,000, a net current asset position of £356,000 and shareholder's funds of £637,000.

The Company successfully raised A$1,188,000 (£692,000) during 2016 which will support overheads for the ensuing twelve months.

The Company will need to identify new assets or investment opportunities before determining its fundraising strategy.

The directors have a reasonable expectation that the Company has adequate funds and continue to adopt the going concern basis in preparing the Financial Statements.

FINANCIAL INSTRUMENTS

The Company's principal financial instruments comprise cash and cash equivalents, short-term deposits and borrowings. The main purpose of these financial instruments is to finance the Company's operations. The Company has other financial instruments which mainly comprise of trade payables which arise directly from its operations (refer to Note 23).

DIRECTORS AND DIRECTORS' INTERESTS

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

	Date appointed	Date resigned
O Cairns	26 Sep 2013	24 Nov 2016
B Popescu	26 Sep 2013	28 Jul 2016
T W Osborne	31 Mar 2006	-
S P West	12 Sep 2005	-
G Hancock	24 Apr 2015	-
S Trevisan	28 Jul 2016	-

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

DIRECTORS AND DIRECTORS' INTERESTS *continued*

The directors who held office at 31 December 2016 had the following interests in the ordinary shares of the Company according to the register of directors' interests:

	Class of Share	Interest at start of year	Interest at end of year
S Trevisan[1]	Ordinary	-	6,400,000
G Hancock[2]	Ordinary	10,000	130,000
T W Osborne	Ordinary	-	-
S P West[3]	Ordinary	331,525	521,684

[1] S Trevisan's shares are held by Transcontinental Investments Pty Ltd in which S Trevisan has a relevant interest by virtue of being a director, joint controller and substantial shareholder in Transcontinental Investments Pty Ltd ('TRG'). TRG acquired 1,800,000 shares on 27 July 2016 through a private placement at $0.10 each, and 4,600,000 shares at $0.10 each pursuant to the Rights Issue on 25 October 2016.

[2] G Hancock's shares are held by GG Hancock Pty Ltd ATF The Greg Hancock S/F A/C in which G Hancock has an indirect beneficial interest. GG Hancock acquired 120,000 shares at $0.10 each pursuant to the Rights Issue on 25 October 2016.

[3] S P West's shares are held by Cresthaven Investments Pty Ltd, ('Cresthaven') a company in which S P West has an indirect beneficial interest. Cresthaven acquired 190,159 shares on 25 October 2016 in lieu of cash for Directors Fees earned settled via participation in the Rights Issue.

DIRECTORS AND DIRECTORS' INTERESTS *continued*

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below (see Note 20 for detail on option plans):

Date of grant	Number of options at start of year	Options acquired during year	Options lapsed during year	Number of options at end of year
G HANCOCK [1]				
25 Oct 2016	-	60,000	-	60,000
T OSBORNE				
11 Jan 2012	25,000	-	-	25,000
S WEST [2]				
4 July 2014	50,000	-	-	50,000
25 Oct 2016	-	95,079	-	95,079
	50,000	95,079	-	145,079
S TREVISAN [3]				
14 Sep 2016	-	900,000	-	900,000
25 Oct 2016	-	2,300,000	-	2,300,000
	-	3,200,000	-	3,200,000

[1] G Hancock's options are held by GG Hancock Pty Ltd ATF The Greg Hancock S/F A/C in which G Hancock has an indirect beneficial interest.

[2] S P West's options are held in the name of Cresthaven Investments Pty Ltd, a company in which S P West has an indirect beneficial interest.

[3] S Trevisan's options are held in the name of Transcontinental Investments Pty Ltd, a company in which S Trevisan has a relevant interest by virtue of being a director, joint controller and substantial shareholder in Transcontinental Investments Pty Ltd.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

SUBSTANTIAL SHAREHOLDERS

The following parties had interests of greater than 3% of the issued share capital of the Company at 31 December 2016:

	Number of shares	% of issued ordinary share capital
Transcontinental Investments Pty Ltd	6,400,000	23.56
GM Investment & Co Limited	5,748,058	21.16
Precision Opportunities Fund	1,666,667	6.14
Glennbrown Pty Ltd	1,165,000	4.29
Dragon Gas Limited	850,000	3.13
Green Sea Investments Pty Ltd	850,000	3.13

POLITICAL CONTRIBUTIONS

The Company made no political contributions during the year.

FUTURE DEVELOPMENTS

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

DISCLOSURE OF INFORMATION TO AUDITORS

Refer to page 12.

By order of the Board

S P West
Chairman and Director
29 March 2017

1 Berkeley Street
London, W1J 8DJ
United Kingdom

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Parent Company and of the profit of the Parent Company for that period. The directors are also required to prepare financial statements in accordance with the rules of the Australian Securities Exchange. Following the disposals of the Parent Company's subsidiaries during the year, the Parent Company had no subsidiaries at the year end and accordingly the directors were not required to prepare group financial statements. However, the directors have voluntarily chosen to prepare group financial statements in accordance with IFRSs as adopted by the European Union.

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

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

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

WEBSITE PUBLICATION

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

By order of the Board

S P West
Chairman and Director
29 March 2017

1 Berkeley Street
London, W1J 8DJ
United Kingdom

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

Opinion

We have audited the financial statements of Zeta Petroleum plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2016 which comprise the consolidated income statement, the company income statement, the consolidated statement of other comprehensive income, the company statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of cash flows, the company statement of cash flows, the consolidated statement of changes in equity, the company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The group financial statements have been voluntarily prepared in accordance with IFRSs as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- The parent company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company, in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have not reported on the group going concern as the group as at the year end was the parent company.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk description	Our response to the risk
Risk of fraud/misstatement in revenue International Auditing Standards (UK) presumes a fraud risk in relation to revenue recognition. The group achieved production from two wells (Climauti and Dornesti) in the year, which amounted to revenue of £120k and £54k respectively. Revenue is recognised in line with the contractual terms of the offtake arrangements and we note that the terms for each producing asset differ. This increases the presumed fraud risk regarding revenue recognition as it increases the risk of revenue being recognised in the wrong accounting period due to the degree of judgement involved.	We performed the following audit procedures : Obtained the production reports and joint interest billing from the joint venture operator in relation to both the Climauti and Dornesti wells and ensured revenue has been recognised appropriately in line with the offtake arrangement. We obtained the offtake arrangement and joint operating agreements to ensure revenue is only recognised when the risks and rewards pass to the customer. We verified that no further revenue was recognised by the group subsequent to the effective date of sale of Zeta Petroleum (Romania) srl and Zeta Pertoluem (Suceava) srl.
Accounting for the disposal of subsidiaries The Company signed an agreement with a major shareholder GM Investment and Co to sell its Romanian oil and gas assets, through the disposal of the Company's entire issued share capital in Zeta Petroleum (Romania) srl and Zeta Petroleum (Suceava) srl in return for extinguishing the long term convertible loans and additional consideration. The sale of the assets and the extinguishment of liabilities was completed on 19 July 2016. The transaction is deemed complex and the accounting involves management judgement.	We verified the Sale and Purchase Agreement ("SPA") and amendments thereto and confirmed the conditions of sale to the accounting treatment in the financial statements. We recalculated the gain on disposal to ensure: Interest on the convertible loan was appropriately accrued up to the date of extinguishment; The cash balance received was verified to bank statements. Investment balances derecognised were compared to their carrying value at effective date of sale.

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

	In the Group financial statements we tested that all assets and liabilities were appropriately deconsolidated, the operating results were recognised up to the date of sale and recalculated the profit on disposal. We verified evidence to support Management's assessment that the transaction was completed on commercial terms and that it was appropriate to include the gain on disposal within the income statement. We further evaluated the disclosures included in the financial statements in resoect of the disposals..
Going concern When preparing financial statements, Management are required to make an assessment of the Company's ability to continue as a going concern. The Directors are required to prepare financial statements on a going concern basis, to do this, as prescribed by the Financial Reporting Council, they should be sufficiently confident that the Company will be able meet its liabilities for a period of at least 12 months from the date of approval of the financial statements. During the year the Company has signed and executed an agreement with GM Investment & Co ("GMI") in which the extinguishment of the entire loan balance by GMI acts as purchase consideration for Zeta Petroleum (Suceava) srl and Zeta Petroleum (Romania) srl. The result of this transaction is that Zeta Petroleum plc has few liabilities and minimal continuing expenses. The Company also raised approximately AU$1m from a rights issue at the end of 2016 which was used to settle a number of historic liabilities and professional fees related to the capital raise. As at 31 December 2016 this left a cash surplus of AU$696k. Given the Company has no cash generating assets we have considered it necessary to classify going concern as a significant risk.	We reviewed and challenged Management's forecasts to assess the Company's ability to meet its financial obligations as they fall due for a period of at least one year . from the date of approval of the financial statements. We performed our own sensitivities in respect of key assumptions underpinning the forecasts and verified that the cash flows reflect the nature of the business following the sale of the two main operating subsidiaries. We verified that Management has included budgeted spend on the Jimbolia licence in line with their contractual commitments.

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

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and forming our opinions.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group and parent to be £14,000, which was based on 2% of total assets.

Reporting threshold

An amount below which identified misstatements are considered to be clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £700, which was set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluated any uncorrected misstatements against both quantitative measures of materiality discussed above and in light of other relevant qualitative considerations when forming our opinion.

An overview of the scope of our audit

Whilst Zeta Petroleum plc is a Company registered in England & Wales and listed on the Australian Stock Exchange (ASX), the Company's principal asset is located in Romania. In approaching the audit we considered how the Company is organised and managed. During the year the Company sold its principal operating subsidiaries, Zeta Petroleum (Romania) SRL and Zeta Petroleum (Suceava) SRL to a major shareholder, GM Investment and Co, in exchange for extinguishing an outstanding convertible loan note. The financial statements reflect the consolidated results of the Group up to the date of disposal (15 July 2016) and the results of the standalone company thereafter.

Both the parent company and Group were subject to a full scope audit and all work was conducted by BDO LLP.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts 2016, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are

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

required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Following the disposals of the company's subsidiaries during the year, the company had no subsidiaries at the year end and accordingly the directors were not required to prepare group financial statements under the Companies Act 2006 or IFRS as adopted by the EU. However, in order to present a fair reflection of the results for the year, the directors decided to voluntarily prepare group financial statements and engaged us to audit and report on these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matt Crane (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom

Date: 29 March 2017

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

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
Revenue		-	-
Cost of goods sold		-	-
Gross Profit		-	-
Exploration and evaluation expenses		-	-
Administrative expenses	22	**(270)**	(607)
Other income	9	**2,164**	-
Operating profit / (loss)		**1,894**	(607)
Interest income		-	-
Financing costs	4	**(120)**	(169)
Foreign Exchange gain/(loss)		**268**	13
Profit / (Loss) from continuing operations		**2,042**	(763)
Income tax	8	-	-
Loss on discontinued operations, net of tax	9	**(87)**	(277)
Profit/ (Loss) for the year attributable to the equity holders		**1,955**	(1,040)
Profit/(Loss) per ordinary share – basic	10	**16p**	(15p)
Profit/(Loss) per ordinary share – diluted	10	**8p**	(15p)
Profit/(Loss) per ordinary share from continuing operations – basic	10	**17p**	(11p)
Profit/(Loss) per ordinary share from continuing operations – diluted	10	**9p**	(11p)
(Loss) per ordinary share from discontinued operations – basic and diluted		**(0.003)p**	(4.000)p

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
Profit/(Loss) for the year		**1,955**	(1,040)
Other comprehensive income:			
Items which may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(1,411)**	3
Total other comprehensive income		**(1,411)**	3
Total comprehensive income/(loss) for the year attributable to the equity holders		**544**	(1,037)

COMPANY INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	**2016** **£'000**	2015 £'000
Revenue		**-**	-
Cost of goods sold		**-**	-
Gross Profit		**-**	-
Exploration and evaluation expenses		**-**	-
Administrative expenses	22	**(270)**	(607)
Other income	9	**2,164**	-
Impairment of investment in subsidiary		**(1,184)**	(700)
Operating profit / (loss)		**710**	(1,307)
Interest income		**-**	-
Financing costs	4	**(120)**	(169)
Foreign Exchange gain/(loss)		**268**	13
Profit / (Loss) from continuing operations		**858**	(1,463)
Income tax	8	**-**	-
Profit/ (Loss) for the year attributable to the equity holders		**858**	(1,463)
Profit/(Loss) per ordinary share – basic	10	**7p**	(21p)
Profit/(Loss) per ordinary share – diluted	10	**4p**	(21p)

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
Profit/(Loss) for the year		**858**	(1,463)
Other comprehensive income:			
Items which may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**506**	(437)
Total other comprehensive income		**506**	(437)
Total comprehensive income/(loss) for the year attributable to the equity holders		**1,364**	(1,900)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Intangible assets	11	**281**	-
Property, plant and equipment	12	**-**	-
		281	-
Assets held for sale	13	**-**	1,408
Current assets			
Trade and other receivables	14	**14**	76
Cash and cash equivalents	15	**405**	47
		419	123
TOTAL ASSETS		**700**	1,531
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	17	**1,033**	290
Share premium	19	**9,363**	9,363
Share based payments reserve	20	**482**	482
Share options reserve	21	**-**	-
Capital Contribution Reserve		**60**	427
Foreign currency translation reserve		**(825)**	586
Accumulated losses		**(9,476)**	(11,400)
TOTAL EQUITY		**637**	(252)
Non-current liabilities		**-**	-
Liabilities directly associated with assets classified as held for sale	13	**-**	1,626
Current liabilities			
Trade and other payables	16	**63**	157
		63	157
TOTAL LIABILITIES		**63**	1,783
TOTAL EQUITY AND LIABILITIES		**700**	1,531

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

The Financial Statements were approved by the Board of Directors and authorised for issue on 29 March 2017 and were signed on its behalf by:

Stephen West, Director

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Non-current assets			
Intangible assets	11	**281**	-
Property, plant and equipment	12	**-**	-
		281	-
Assets held for sale	13	**-**	596
Current assets			
Trade and other receivables	14	**14**	21
Cash and cash equivalents	15	**405**	44
		419	65
TOTAL ASSETS		**700**	661
EQUITY AND LIABILITIES			
Equity attributable to equity holders			
Issued capital	17	**1,033**	290
Share premium	19	**9,363**	9,363
Share based payments reserve	20	**482**	482
Share options reserve	21	**-**	-
Capital Contribution Reserve		**60**	427
Foreign currency revaluation reserve		**(145)**	(651)
Accumulated losses		**(10,156)**	(10,983)
TOTAL EQUITY		**637**	(1,072)
Non-current liabilities		**-**	-
Liabilities directly associated with assets classified as held for sale	13	**-**	1,576
Current liabilities			
Trade and other payables	16	**63**	157
		63	157
TOTAL LIABILITIES		**63**	1,733
TOTAL EQUITY AND LIABILITIES		**700**	661

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

The Financial Statements were approved by the Board of Directors and authorised for issue on 29 March 2017 and were signed on its behalf by:

Stephen West, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Capital Contribution Reserve £'000	Foreign Currency Translation Reserve £'000	Accumulated Losses £'000	Total £'000
As at 1 January 2016	**290**	**9,363**	**482**	**-**	**427**	**586**	**(11,400)**	**(252)**
Profit for the year	-	-	-	-	-	-	1,955	1,955
Other comprehensive income	-	-	-	-	-	(1,411)	-	(1,411)
Total comprehensive income	-	-	-	-	-	(1,411)	1,955	544
Issue of ordinary shares	743	-	-	-	-	-	(31)	712
Write-back of Interest contribution from shareholder	-	-	-	-	(367)	-	-	(367)
As at 31 December 2016	1,033	9,363	482	-	60	(825)	(9,476)	637

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Capital Contribution Reserve £'000	Foreign Currency Translation Reserve £'000	Accumulated Losses £'000	Total £'000
As at 1 January 2015	**251**	**9,320**	**482**	**131**	**347**	**583**	**(10,467)**	**647**
Loss for the year	-	-	-	-	-	-	(1,040)	(1,040)
Other comprehensive income	-	-	-	-	-	3	-	3
Total comprehensive income	-	-	-	-	-	3	(1,040)	(1,037)
Issue of ordinary shares	39	19	-	-	60	-	-	118
Interest contribution from shareholder	-	-	-	-	20	-	-	20
Write-back of share options lapsed during year	-	24	-	(131)	-	-	107	-
As at 31 December 2015	290	9,363	482	-	427	586	(11,400)	(252)

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COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Capital Contribution Reserve £'000	Foreign Currency Translation Reserve £'000	Accumulated Losses £'000	Total £'000
As at 1 January 2016	**290**	**9,363**	**482**	**-**	**427**	**(651)**	**(10,983)**	**(1,072)**
Profit for the year	-	-	-	-	-	-	**858**	**858**
Other comprehensive income	-	-	-	-	-	**506**	-	**506**
Total comprehensive income	-	-	-	-	-	**506**	**858**	**1,364**
Issue of ordinary shares	**743**	-	-	-	_	-	**(31)**	**712**
Write-back of interest contribution from shareholder	-	-	-	-	**(367)**	-	-	**(367)**
As at 31 December 2016	**1,033**	**9,363**	**482**	**-**	**60**	**(145)**	**(10,156)**	**637**

ZETAPETROLEUMPLC

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Issued Capital £'000	Share Premium £'000	Share Based Payments Reserve £'000	Share Options Reserve £'000	Capital Contribution Reserve £'000	Foreign Currency Translation Reserve £'000	Accumulated Losses £'000	Total £'000
As at 1 January 2015	251	9,320	482	131	347	(214)	(9,627)	690
Loss for the year	-	-	-	-	-	-	(1,463)	(1,463)
Other comprehensive income	-	-	-	-	-	(437)	-	(437)
Total comprehensive income	-	-	-	-	-	(437)	(1,463)	(1,900)
Issue of ordinary shares	39	19	-	-	60	-	-	118
Interest contribution from shareholder	-	-	-	-	20	-	-	20
Write-back of share options lapsed during year	-	24	-	(131)	-	-	107	-
As at 31 December 2015	290	9,363	482	-	427	(651)	(10,983)	(1,072)

ZETAPETROLEUMPLC

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
OPERATING ACTIVITIES			
Profit / (Loss) after tax from continuing operations		**2,042**	(763)
Adjustment to reconcile loss to net cash outflow from operating activities			
Depreciation and depletion	12	**-**	1
Amortisation	11	**9**	-
Remuneration settled in shares		**22**	118
Interest on loans	4	**120**	169
Expenses recharged		**(16)**	(58)
Effect of foreign exchange rates		**(303)**	(16)
Gain on disposal of subsidiaires		**(2,164)**	-
Working capital adjustments:			
Decrease/(increase) in receivables		**8**	(13)
(Decrease)/increase in trade and other payables		**(94)**	(62)
Net cash outflow from operating activities		**(376)**	(624)
INVESTING ACTIVITIES			
Cash received on disposal of investments		**34**	-
Net cash inflow from investing activities		**34**	-
FINANCING ACTIVITIES			
Proceeds from share placements		**692**	-
Proceeds from loans		**75**	195
Net cash inflow from financing activities		**767**	195
Net cash flow from discontinued operations	9	**(64)**	(61)
Net Increase/(decrease) in cash and cash equivalents		**361**	(490)
Effect of foreign exchange rates		**(3)**	(16)
Cash and cash equivalents at the beginning of the year	15	**47**	553
Cash and cash equivalents at the end of the year	15	**405**	47

COMPANY STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
OPERATING ACTIVITIES			
Profit / (Loss) after tax		**858**	(1,463)
Adjustment to reconcile loss to net cash outflow from operating activities			
Depreciation	12	**-**	1
Amortisation	11	**9**	
Remuneration settled in shares		**22**	118
Interest on loans	4	**120**	169
Expenses recharged		**(16)**	(58)
Impairment of investment in subsidiary		**1,184**	700
Gain on disposal of subsidiaries		**(2,164)**	-
Foreign exchange losses/(gains)		**(303)**	(16)
Interest income		**-**	-
Working capital adjustments:			
Decrease/(increase) in receivables		**8**	(13)
(Decrease)/increase in trade and other payables		**(94)**	(62)
Net cash outflow from operating activities		**(376)**	(624)
INVESTING ACTIVITIES			
Cash received on disposal of subsidiaries	9	**34**	-
Loans to subsidiary undertakings		**(62)**	(59)
Net cash outflow from investing activities		**(28)**	(59)
FINANCING ACTIVITIES			
Proceeds from share placements		**692**	-
Proceeds from loans		**75**	195
Net cash inflow from financing activities		**767**	195
Net Increase/(decrease) in cash and cash equivalents		**363**	(488)
Effect of foreign exchange rates		**(2)**	(15)
Cash and cash equivalents at the beginning of the year	15	**44**	547
Cash and cash equivalents at the end of the year	15	**405**	44

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ACCOUNTING POLICIES

1.1 Authorisation of financial statements and statement of compliance with IFRS

Group information is being voluntarily presented, and is being presented in accordance with IFRS (as adopted by the EU). Company information is being presented in accordance with IFRS (as adopted by the EU) and is in compliance with law and IFRS. Zeta Petroleum plc ("Zeta" or the "Company"), the ultimate parent of the Group, is a public company incorporated in England. The registered office and principal place of business is 1 Berkeley Street, London, W1J 8DJ. The principal activities of Zeta and its subsidiaries (the "Group") are oil and gas exploration, development and production.

The Group's consolidated financial statements for the year ended 31 December 2016 were authorised for issue by the board of directors on 29 March 2017 and the statements of financial position were signed on the Board's behalf by S P West.

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

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

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

1.2 Going concern

The financial statements have been prepared on a going concern basis. As at 31 December 2016 the Company had available funds totalling £405,000, a net current asset position of £356,000 and shareholder's funds of £637,000.

The Company successfully raised A$1,188,000 (£692,000) during 2016 which will support overheads for the ensuing twelve months.

The Company will need to identify new assets or investment opportunities before determining its fundraising strategy.

The directors have a reasonable expectation that the Company has adequate funds and continue to adopt the going concern basis in preparing the Financial Statements.

1.3 Significant accounting judgements, estimates and assumptions

The preparation of the Company and Group's financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates if different assumptions were used and different conditions existed.

In particular, the Company and Group has identified the following areas where significant judgements, estimates and assumptions are required, and where if actual results were to differ, may materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies are described in the relevant notes to the financial statements.

(a) Recoverability of oil and gas assets (Intangible assets)

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

Fair value is either determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties or as the present value of estimated future cash flows arising from the continued use of the assets. This includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its CGUs as being an individual field, which is the lowest level for which cash inflows are largely independent of those of other assets. The carrying values of the Jimbolia licence as at 31 December 2016 was £281,000 (2015: £259,093) as disclosed in note 11.

(b) Share based payments

The Company has issued share options to certain employees which are recognised as an expense in the Income Statement. The expense is based on the fair value of the total amount of options granted but excluding the impact of any service or non-market performance vesting conditions (for example the requirement of the grantee to remain an employee of the Company). All amounts relating to these estimates are shown in note 20.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(c) Contingencies

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

(d) Market interest rates

The GMI loan carried an implicit interest rate of 10%. In accordance with IAS39 the interest expense must be measured using market rate of interest. A market rate of interest has been adjusted to that of a bond with a similar profile. The market interest rate on similar bonds is 12.5%. All amounts relating to these estimates are shown in note 23.

(e) Depletion of commercial reserves

Commercial reserves are proven and probable oil and gas reserves, calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a unit of production basis. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price. All amounts relating to these estimates are shown in note 12.

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

a) New and amended standards adopted by the Company and Group:

No standards adopted this year had a material affect.

b) Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Standard	Description	Effective date	EU Endorsement status
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Endorsed
IFRS 9	Financial Instruments	1 January 2018	Endorsed
IFRS 16	Leases	1 January 2019	Expected H2 2017
IAS 12	Recognition of deferred tax assets for unrealised losses (Amendments)	1 January 2017	Expected Q2 2017
IAS 7	Disclosure Initiative: amendments	1 January 2017	Expected Q2 2017
IFRS 15	Clarifications to IFRS 15 revenue from Contracts with Customers	1 January 2018	Expected Q2 2017
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments)	1 January 2018	Expected H2 2017
Annual Improvements to IFRSs	(2012–2014 Cycle)	1 January 2017 and 1 January 2018	Expected H2 2017
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	Expected H2 2017

We do not consider the impact of these new standards to be material. The Company currently does not have any revenue generating assets, lease arrangements or financial instruments which will be impacted by the adoption of IFRS 15, IFRS 9 and IFRS 16.

1.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of Zeta Petroleum plc (“Zeta”) and its subsidiaries as at 31 December 2016. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. IFRS 10 defines control as being when an investor when it is exposed to, or has rights, to variable returns from its involvement wit the investee and has the ability to affect those returns through its power over the investee. Note that as at 18 July 2016 the Company sold its 100% equity interest in Zeta Petroleum (Romania) Srl and Zeta Petroleum (Suceava) Srl and at this point lost control of the subsidiaries and deconsolidated them.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1.6 Joint operations

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

1.7 Foreign currencies

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

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

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

1.8 Intangible assets

Oil and gas exploration assets

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

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

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

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

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

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

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

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

Jimbolia 25/03/2008 – 25/03/2028

1.9 Property, plant and equipment

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

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

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

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

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

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

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

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

1.10 Financial instruments

Cash and cash equivalents

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

Trade and other receivables

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

Impairment of financial assets

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

Financial liabilities

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

Interest bearing loans and borrowings

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

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

1.11 Share-based payments

Share options

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

1.12 Taxation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

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

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

1.13 Revenue recognition

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

Royalties payable to the Romanian Government on gas sales revenue are disclosed as Cost of Goods Sold in Note 9 to the Financial Statements.

At the reporting date the Company had no production following the disposal of Zeta Petroleum (Suceava) SRL. Prior to the disposal the Group had production from the Climauti and Ruda-1 gas fields which is sold to a single industrial user, and the Dornesti Sud-1 well on the Suceava concession via a gas to power on-site generator. Electricity generated from the Dornesti Sud-1 is sold directly to a single industrial user.

1.14 Interest income

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

1.15 Share issue expenses and share premium account

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

1.16 Assets held for sale

Assets are classified as held for sale when:
- They are available for immediate sale;
- Management is committed to a plan to sell;
- It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- An active programme to locate a buyer has been initiated;
- The asset is being marketed as a reasonable price in relation to its fair value; and
- A sale is expected to complete within 12 months from the date of classification.

Assets are classified as held for sale are measured at the lower of:
- Their carrying amount immediately prior to being classified as held for sale in accordance with the Company's and Group's accounting policy; and
- Fair value less disposal cost.

Following their classification as held for sale, non-current assets are not depreciated.

The results of operations disposed during the year are included in the consolidated statement of comprehensive income up to the date of disposal.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

2. SEGMENT INFORMATION

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

No further disclosure of segment revenue and result is required as this is given in the income statements. The following tables present expenditure and certain asset information regarding the Group's geographical segments for the year ended 31 December 2016:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £'000	2015 £'000
SEGMENT ASSETS		
United Kingdom		
- Non-current	-	-
- Current	419	65
Romania		
- Non-current	281	-
- Current	-	58
- Held for sale	-	1,408
Total		
- Non-current	281	-
- Current	419	123
- Held for sale	-	1,408
CAPITAL EXPENDITURE		
United Kingdom	-	-
Romania	-	34
	-	34

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

3. OPERATING PROFIT / (LOSS)

	GROUP	
	2016 £'000	2015 £'000
Operating loss is stated after charging:		
Amortisation (note 11)	18	35
Depreciation and depletion (note 12)	-	91
Net foreign exchange differences	(141)	48

	COMPANY	
	2016 £'000	2015 £'000
Operating loss is stated after charging:		
Amortisation (note 11)	9	-
Depreciation and depletion (note 12)	-	91
Net foreign exchange differences	(268)	48

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. FINANCING COSTS

	GROUP & COMPANY	
	2016 **£'000**	2015 £'000
Interest on loans	**120**	169
Total financing costs	**120**	169

5. AUDITORS' REMUNERATION

	GROUP & COMPANY	
	2016 **£'000**	2015 £'000
Audit services		
Fees payable to the Company's auditors for the audit of the Group's consolidated accounts	**32**	32
	32	32

6. EMPLOYMENT COSTS

	GROUP	
	2016 **£'000**	2015 £'000
Wages and salaries	**121**	216
Social security costs	**18**	21
Share based payments arising from equity-settled share based payment transactions	**-**	-
	139	237

	COMPANY	
	2016 **£'000**	2015 £'000
Wages and salaries	**121**	211
Social security costs	**11**	21
Share based payments arising from equity-settled share based payment transactions	**-**	-
	132	232

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

	GROUP & COMPANY	
	2016	2015
Management	**1**	1
Administration	**1**	2
	2	3

7. REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

GROUP AND COMPANY:	2016 £'000	2015 £'000
Basic salary and fees	**132**	359
Share based payments	**-**	-
Termination benefits	**-**	-
	132	359

	2016				2015			
	Basic salary and fees £'000	**Share based payments £'000**	**Termination benefits £'000**	**Total £'000**	Basic salary and fees £'000	Share based payments £'000	Termination benefits £'000	Total £'000
T. Osborne	**7**	**-**	**-**	**7**	12	-	-	12
S. Trevisan	**-**	**-**	**-**	**-**	-	-	-	-
S. West[1]	**10**	**-**	**-**	**10**	32	-	-	32
B. Popescu	**21**	**-**	**-**	**21**	32	-	-	32
O. Cairns[2]	**19**	**-**	**-**	**19**	13	-	-	13
J. Hayward[3]	**-**	**-**	**-**	**-**	20	-	-	20
G. Hancock	**10**	**-**	**-**	**10**	8	-	-	8
Total Directors	**67**	**-**	**-**	**67**	117	-	-	117
A. Morrison[4]	**-**	**-**	**-**	**-**	112	-	-	112
B. Hodges	**65**	**-**	**-**	**65**	120	-	-	120
J. Micu	**-**	**-**	**-**	**-**	10	-	-	10
Total Other Management Personnel	**132**	**-**	**-**	**132**	242	-	-	242

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

B Popescu was the highest paid Directors in the 2016 Financial Year.

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

Details of interests in share options for each director are set out in the Directors Report on page 9.

[1] Basic salary and fees paid to S West in 2015 includes consultancy fees paid through a service company.
[2] Basic salary and fees paid to O Cairns in 2016 and 2015 were all paid through a service company.
[3] Basic salary and fees paid to J Hayward in 2015 and was paid through a service company.
[4] Basic salary and fees paid to A Morrison in 2015 were consultancy fees paid through a service company.

8. TAXATION

	GROUP	
	2016	2015
	£'000	£'000
Total income tax:		
Total income tax charge	**-**	-

A reconciliation of the income tax expense applicable to the accounting loss before tax at the statutory income tax rate to the income tax expense at the Group's effective income tax rate is as follows:

	2016	2015
	£'000	£'000
Accounting profit / (loss) before tax	**1,955**	(1,040)
Expected tax credit at standard UK effective corporation tax of 20% (2015 – 20%)	**391**	(208)
Disallowed (income)/expenses	**(6)**	26
Unrecognised temporary differences on licences and exploration costs	**11**	10
Effect of lower tax rates in Romania	**(2)**	7
Tax losses applied	**(394)**	-
Unrecognised tax losses	**-**	165
Tax charge for the year	**-**	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

	COMPANY	
	2016	2015
	£'000	£'000
Total income tax:		
Total income tax charge	**-**	-

A reconciliation of the income tax expense applicable to the accounting loss before tax at the statutory income tax rate to the income tax expense at the Company's effective income tax rate is as follows:

	2016	2015
	£'000	£'000
Accounting profit / (loss) before tax	**857**	(1,464)
Expected tax credit at standard UK effective corporation tax of 20% (2015 – 20%)	**171**	(293)
Disallowed (income)/expenses	**243**	154
Unrecognised temporary differences on licences and exploration costs	**2**	10
Tax losses applied	**(416)**	-
Unrecognised tax losses	**-**	139
Tax charge for the year	**-**	-

The Company has tax losses arising in the UK of £7,563,802 (2015: £9,644,259) and a deferred tax asset not recognised in the accounts of £1,512,760 (2015: £1,739,540) that are available indefinitely for offset against future taxable profits of the companies in which these losses arose. The Directors do not consider it appropriate to provide for any deferred tax asset on the basis that there are insufficient profits arising in the foreseeable future against which to offset the losses.
At year end the Company had unrecognised deferred tax assets comprising £3,449 (2015: £3,488) arising from deferred capital allowances, and unrecognised deferred tax asset of £62,850 (2015: £73,070) arising from share based payments. The Directors do not consider it appropriate to provide for any deferred tax asset on the basis that there are insufficient profits arising in the foreseeable future against which to offset the losses.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

9. DISCONTINUED OPERATIONS

The Company entered in to an agreement for the sale of its Romanian oil & gas assets to it's largest shareholder GMI in exchange for full forgiveness of all outstanding debt owed to GMI which completed on 19 July 2016. As at 19 July the total of debt owing to GMI was £2,405,580 (A$4,165,309). In addition to full debt forgiveness Zeta retained the balance of cash and debtor account with its JV partner on the Suceava licence which totalled £29,000 (A$52,500).

(i) Results of discontinued operations

	2016 £'000	2015 £'000
Revenue	**174**	291
Cost of goods sold	**(109)**	(161)
Exploration and evaluation expenses	**(178)**	(14)
Administrative expenses	**(95)**	(332)
Other income	**67**	-
Foreign exchange loss	**54**	(61)
Loss for the year	**(87)**	(277)

Earnings per share from discontinued operations

	2016 £'000	2015 £'000
Basic and diluted profit / (loss) per share	**(0.003) p**	(4.000)p

Statement of cash flows

	2016 £'000	2015 £'000
Operating activities	**(207)**	(27)
Investing activities	**-**	(35)
Financing activities	**143**	-
Net cash from discontinued operations	**(64)**	(61)

Refer to note 13 for further details on Assets Held for sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(ii) Gain on sale of assets

The post-tax gain on disposal of discontinued operations was determined as follows:

	2016 £'000
Cash consideration received	**34**
Other consideration received – debt forgiveness	**2,443**
Other consideration received – Value of Jimbolia licence retained	**283**
Total consideration received	**2,760**
Cash disposed of	**-**
Net inflow received on disposal of discontinued operations	**2,760**
Net assets disposed of (other than cash)	**-**
Investment in subsidiaries	**(596)**
Loans to subsidiaries net of impairment (120)	
	(596)
Pre-tax gain on disposal of discontinued operations	**2,164**
Related tax expense	**-**
Gain on disposal of discontinued operations	**2,164**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. PROFIT/(LOSS) PER SHARE

	GROUP					
	Continuing operations 2016 £'000	**Discontinued operations 2016 £'000**	**Total 2016 £'000**	Continuing operations 2015 £'000	Discontinued operations 2015 £'000	Total 2015 £'000
Profit/(loss) for the year	**2,042**	**(87)**	**1,955**	(763)	(277)	(1,040)
Loss for the year attributable to the equity holders	**2,042**	**(87)**	**1,955**	(763)	(277)	(1,040)

The weighted average number of ordinary shares for the year was 11,930,464 (2015: 6,775,030).

Earnings per share

	Total		Continuing operations	
	2016	2015	2016	2015
Basic weighted average number of shares	11,930,464	6,775,030	11,930,464	6,775,030
Potential dilutive effect on shares issuable under options	10,177,166	-	10,177,166	-
Potential diluted weighted average number of shares	22,107,630	6,775,030	22,107,630	6,775,030
Net Profit (loss) per share – basic	16p	(11p)	17p	(15p)
Net Profit (loss) per share – diluted	8p	(11p)	9p	(15p)

The basic and diluted loss per share for 2015 are the same as there are no dilutive effects on earnings as the effect of the exercise of share options would be to decrease the loss per share. Details of share options that could potentially dilute earnings per share in future years are set out in Note 20.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10. PROFIT/(LOSS) PER SHARE

	COMPANY	
	2016 **£'000**	2015 £'000
Profit/(loss) for the year	**858**	(1,463)
Loss for the year attributable to the equity holders	**858**	(1,463)

The weighted average number of ordinary shares for the year was 11,930,464 (2015: 6,775,030).

	Total	
	2016	2015
Basic weighted average number of shares	11,930,464	6,775,030
Potential dilutive effect on shares issuable under options	10,177,166	-
Potential diluted weighted average number of shares	22,107,630	6,775,030
Net Profit (loss) per share – basic	7p	(21p)
Net Profit (loss) per share – diluted	4p	(21p)

The basic and diluted loss per share for 2015 are the same as there are no dilutive effects on earnings as the effect of the exercise of share options would be to decrease the loss per share. Details of share options that could potentially dilute earnings per share in future years are set out in Note 20.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11. INTANGIBLE ASSETS

	Licence Acquisition Costs £'000	Total £'000
Cost:		
As at 1 January 2015	894	894
Effect of movement in foreign exchange	(62)	(62)
Re-classified to assets held for sale	(832)	(832)
At 31 December 2015	-	-
Restatement of Jimbolia licence [i]	317	317
Effect of movement in foreign exchange	49	49
At 31 December 2016	**366**	**366**
Amortisation:		
As at 1 January 2015	(338)	(338)
Provided in the year (see note 3)	(35)	(35)
Effect of movement in foreign exchange	24	24
Re-classified to assets held for sale	(349)	(349)
At 31 December 2015	-	-
Restatement of Jimbolia licence [i]	(58)	(58)
Provided in the year (see note 3) [ii]	(18)	(18)
Effect of movement in foreign exchange	(9)	(9)
At 31 December 2016	**(85)**	**(85)**
Net book value at 1 January 2015	556	556
Net book value at 31 December 2015	-	-
Net book value at 31 December 2016	**281**	**281**

[i] The restatement of the Jimbolia licence reflects the amendment to the Sale and Purchase Agreement ("SPA") for the sale of the Romanian subsidiaries to GM Investment & Co. On 17 June 2016 the SPA was amended to enable the Company to retain its 39% interest in the Jimbolia licence. For further information please refer to the ASX announcement of 19 July 2016. The licence has been capitalised at its written down value.

[ii] The amortisation on the Jimbolia licence attributable to the Company post completion of the SPA was £9,000.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

12. PROPERTY, PLANT AND EQUIPMENT

	GROUP		
	Office Equipment £'000	**Oil & Gas Assets £'000**	**Total £'000**
Cost:			
As at 1 January 2015	44	1,188	1,232
Additions	1	34	35
Effect of movement in foreign exchange	(1)	(82)	(83)
Re-classified to assets held for sale	(10)	(1,140)	(1,150)
As at 31 December 2015	34	-	34
Property, plant & equipment written off	**(34)**	**-**	**(34)**
As at 31 December 2016	**-**	**-**	**-**
Depreciation:			
As at 1 January 2015	(41)	(225)	(266)
Provided in the year (see note 3)	(3)	(88)	(91)
Effect of movement in foreign exchange	2	14	16
Re-classified to assets held for sale	8	299	307
As at 31 December 2015	(34)	-	(34)
Provided in the year (see note 3)	**-**	**-**	**-**
Property, plant & equipment written off	**34**	**-**	**34**
As at 31 December 2016	**-**	**-**	**-**
Net book value at 1 January 2015	3	963	966
Net book value at 31 December 2015	-	-	-
Net book value at 31 December 2016	**-**	**-**	**-**

The Oil & Gas assets were reclassified as Assets held for Sale which must be recorded at the lower of book value and fair value in accordance with IFRS 5.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

	COMPANY
	Total £'000
Cost:	
As at 1 January 2015	34
Additions	-
As at 31 December 2015	34
Property, plant & equipment written off	(34)
As at 31 December 2016	**-**
Depreciation:	
As at 1 January 2015	(33)
Provided in the year	(1)
As at 31 December 2015	(34)
Provided in the year	-
Property, plant & equipment written off	34
As at 31 December 2016	**-**
Net book value at 1 January 2015	1
Net book value at 31 December 2015	-
Net book value at 31 December 2016	**-**

13. ASSETS HELD FOR SALE

(i) General Description

On 12 January 2016 the Company announced that it had signed an agreement with a major shareholder GM Investment & Co. ('GMI') for the sale of its Romanian oil & gas assets to GMI through 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, exchange for full settlement of all outstanding debt owed to GMI ("Sale and Purchase Agreement" or "SPA"). The total amount of debt owed to GMI as of 31 December 2015 was £1,576,989 being the aggregate amount of the outstanding balance under the debt facility announced on 28 May 2015 and the fully drawn down Consolidated Loan as announced on 7 January 2015. This proposed asset sale was subject *inter alia* to shareholder approval.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

On 8 February at a General Meeting shareholders voted in favour of the Sale and Purchase Agreement. The SPA is expected to be completed in April 2016.

On 17 June the Company signed an amendment agreement relating to the SPA to enable the Company to retain a 39% non-operated interest in the Jimbolia concession in Romania. With effect from completion of the SPA (as amended), GMI is required to transfer the thirty nine percent (39%) legal interest held by Zeta Petroleum (Romania) SRL (an entity transferred to GMI at completion of the SPA) in the Jimbolia concession to the Company, such that the 39% beneficial interest in the Jimbolia concession at all times during the period from 11 January 2016 (being the date of the SPA) to completion and at completion remains with the Company. This was the only amendment to the SPA.

The SPA (as amended) completed on 18 July 2016 with all debt owed by the Company to GMI being settled in full upon completion.

(ii) Assets and liabilities held for sale

The following major classes of assets and liabilities relating to these operations have been classified as held for sale in the consolidated statement of financial position as at 31 December:

	GROUP		COMPANY	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Intangible assets	**-**	483	**-**	-
Property plant and equipment	**-**	843	**-**	-
Trade & other receivables	**-**	82	**-**	-
Investment in subsidiaries	**-**	-	**-**	596
Assets held for sale	**-**	1,408	**-**	596
Provisions	**-**	45	**-**	-
Loans	**-**	1,576	**-**	1,576
Trade and other payables	**-**	5	**-**	-
Liabilities held for sale	**-**	1,626	**-**	1,576

The Oil & Gas assets included in Property plant & equipment were reclassified as Assets held for Sale which must be recorded at the lower of book value and fair value in accordance with IFRS 5.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

14. TRADE RECEIVABLES

	GROUP		COMPANY	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Amounts due within one year:				
VAT receivables	**1**	82	**1**	4
GST receivables	**2**	1	**2**	1
Other receivables	**1**	1	**1**	1
Loans to joint operating partner	**-**	53	**-**	-
Prepayments	**10**	21	**10**	15
Amounts receivable from subsidiary undertaking	**-**	**-**	**-**	-
Re-classified to assets held for sale	**-**	(82)	**-**	-
Total amounts due within one year	**14**	76	**14**	21

An impairment of investment charge of £701,000 was made against amounts receivable from subsidiary undertaking in 2015.

15. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash at bank and on hand	**405**	47	**405**	44
As at end of year	**405**	47	**405**	44

Cash at bank earns interest at floating rates. Short-term deposits are made for varying periods of between one day and one month depending on the future cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of the Group's and Company's cash and cash equivalents is £405,000 (2015 £47,000) and £405,000 (2015: £44,000) respectively.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

16. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade payables	**11**	47	**11**	47
Other taxes and social security costs	**3**	25	**3**	22
Accruals	**49**	90	**49**	88
Re-classified to Liabilities directly associated with assets classified as held for sale	**-**	(5)	**-**	(5) -
As at end of year	**63**	157	**63**	157

17. SHARE CAPITAL

GROUP AND COMPANY:	**31 December 2016 Number**	**31 December 2016 £'000**	31 December 2015 Number	31 December 2015 £'000
Allotted, issued and fully paid:				
As at start of year	**7,255,037**	**290**	251,483,799	251
Share consolidation[i]	**-**	**-**	(245,196,732)	-
Issue of new shares:				
- Issue 27 July 2016[i]	**1,800,000**	**72**	-	-
- Rights Issue & Shortfall[ii]	**10,761,565**	**396**	-	-
- Rights Issue Shortfall[iii]	**7,348,509**	**275**	967,970	39
As at end of year	**27,165,111**	**1,033**	7,255,037	290

[i] Allotment 27 July: 1,800,000 shares with a nominal value of £0.04.
[ii] 5 October: Rights Issue & Shortfall: 10,761,565 shares with a nominal value of $0.06.
[iii] 25 October: Rights Issue Shortfall: 7,348,509 shares with a nominal value of $0.06.

18. RESERVES

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

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

19 SHARE PREMIUM

GROUP AND COMPANY:	**2016**	2015
	£'000	£'000
As at start of year	**9,363**	9,320
Arising on shares issued	**-**	19
Lapse of options	**-**	24
As at end of year	**9,363**	9,363

20. SHARE BASED PAYMENT RESERVE

GROUP AND COMPANY:	**2016**	2015
	£'000	£'000
As at start of year	**482**	482
As at end of year	**482**	482

There was no expense recognised for employee and non-employee services during the years 2016 and 2015 as no options were issued in either to employees or non-employees in either year..

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

Non-Employee Plan

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

The fair value of the options is determined using the Black Scholes method as stated in note 1.11. and not the value of services provided as this is deemed the most appropriate method of valuation. In all cases non-employee option holders received cash remuneration in consideration for services rendered in accordance with agreed letters of engagement. The contractual life of each option granted ranges from two to five years. There are no cash settlement alternatives. Volatility was determined by calculating the volatility for three similar listed companies and applying the average of the four volatilities calculated.

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

GROUP AND COMPANY:	**2016 Number**	**2016 WAEP[i] £**	2015 Number	2015 WAEP £
Outstanding at the beginning of the year	**433,152**	**1.37**	84,922,854	0.05
Granted during the year	**9,955,037**	**0.06**	-	-
Share consolidation	**-**	**-**	(82,799,821)	0.05
Lapsed during the year	**(50,000)**	**0.93**	(1,689,881)	2.00
Cancelled during the year	**-**	**-**	-	-
Outstanding at end of year	**10,338,189**	**0.12**	433,152	1.37
Exercisable at end of year	**10,388,189**	**0.12**	365,027	1.21

The weighted average remaining contractual life for the share options outstanding as at 31 December 2016 is 3.49 years (2015: 4.48 years). The weighted average fair value of options granted during the year was 0.7 pence (2015: nil). The range of exercise prices for options outstanding at the end of the year was £0.06 – £4.66 (2015: £1.60 – £8.00).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The following table lists the inputs to the models used for the two plans for the years ended 31 December 2016 - 31 December 2012:

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

Share Placement Options

On 27 July 2016 the Company issued a total of 900,000 free attaching unlisted options exercisable at A$0.10 with an expiry date of 30 September 2019 (attached to the issue of 1,800,000 new ordinary fully paid CDIs). The issue of options was subject to shareholder approval which was received on 14 September 2016 at a General Meeting of the Company.

Rights Issue Options

On 7 October 2016 the Company announced the placing of 5,380,782 free options exercisable at A$0.10 each on or before 30 September 2019 under the Rights Issue and shortfall (attached to the placing of 10,761,565 new CDIs.

On 26 October 2016 the Company announced the completion of the Rights Issue shortfall placing 3,674,255 free options exercisable at A$0.10 each on or before 30 September 2019 under the Rights Issue Shortfall (attached to the placing of 7,348,509 new CDIs).

The above options are all stated after adjusting for the effect of the share consolidation.

21. SHARE OPTIONS RESERVE

GROUP AND COMPANY:	**2016 £'000**	2015 £'000
As at start of year	**-**	131
Options lapsed	**-**	(131)
As at end of year	**-**	-

22. EXPENSES BY NATURE

	GROUP	
	2016	2015
	£'000	£'000
Personnel expense	**139**	237
Professional fees	**17**	41
Travel	**11**	32
Management consultancy	**-**	112
Other	**198**	517
Total administration expenses	**365**	939

Total adminiatration costs includes costs from both continued operations (refer to Consolidated Income Statement) and discontinued operations (refer toNote 9).

23. FINANCIAL INSTRUMENTS

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

Foreign currency risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

	British Pounds A$'000	US Dollars A$'000	Euros A$'000	Romanian New Lei A$'000	Total A$'000
Current Assets - 2016					
Cash and cash equivalents	**69**	**-**	**2**	**-**	**71**
Trade and other receivables	**12**	**-**	**-**	**-**	**12**
Liabilities - 2016					
Trade and other payables	**84**	**-**	**-**	**-**	**84**
Current Assets - 2015					
Cash and cash equivalents	38	31	4	5	78
Trade and other receivables	42	-	-	157	199
Liabilities - 2015					
Trade and other payables	305	-	10	9	324

Foreign currency risk sensitivity analysis:

Due to the low level of transactions in 2016 Management has considered that the foreign currency exchange risk is immaterial.

	2016 A$'000	2015 A$'000
Change in profit/(loss) (AUD:GBP)		
Improvement in AUD to GBP by 10%	**-**	(46)
Decline in AUD to GBP by 10%	**-**	46
Change in profit/(loss) (AUD:USD)		
Improvement in AUD to USD by 10%	**-**	(4)
Decline in AUD to USD by 10%	**-**	4
Change in profit/(loss) (AUD:EUR)	**-**	(2)
Improvement in AUD to EUR by 10%	**-**	2
Decline in AUD to EUR by 10%		
Change in profit/(loss) (AUD:RON)		
Improvement in AUD to RON by 10%	**-**	(1)
Decline in AUD to RON by 10%	**-**	1

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

	British Pounds A$'000	US Dollars A$'000	Euros A$'000	Romanian New Lei A$'000	Total A$'000
Current Assets - 2016					
Cash and cash equivalents	**69**	**-**	**2**	**-**	**71**
Trade and other receivables[i]	**12**	**-**	**-**	**-**	**12**
Liabilities - 2016					
Trade and other payables	**84**	**-**	**-**	**-**	**84**
Current Assets - 2015					
Cash and cash equivalents	38	31	2	-	71
Trade and other receivables[i]	42	-	13,079	2,804	15,925
Liabilities - 2015					
Trade and other payables	305	-	10	-	315

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

Interest rate risk

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

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

	GROUP		COMPANY	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Floating rate – within one year:				
Financial Assets				
- Cash and cash equivalents	**405**	47	**405**	44

Liquidity Risk

The Group and Company monitor liquidity risk on a monthly basis by maintaining cashflow summaries and forecasts extending out for a twelve month period. The Group and Company have no long term cash investments at reporting date. In order to meet both overhead and operational cashflow obligations the Group and Company issues additional equity for cash, obtains debt finance and divests interests in asset licences in order to fund other areas of the business.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The table below summarises the maturity profile of the Group's financial liabilities (undiscounted amounts of principal and related interest) at 31 December 2016 and 2015 based on contractual undiscounted payments:

	On Demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Year ended 31 December 2015						
Loans	-	-	-	-	-	-
Trade and other payables	-	132	-	-	-	132
As at 31 December 2015	**-**	**132**	**-**	**-**	**-**	**132**
Year ended 31 December 2015						
Loans	-	-	-	-	-	-
Trade and other payables	-	60	-	-	-	60
As at 31 December 2016	**-**	**60**	**-**	**-**	**-**	**60**

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted payments.

	On Demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Year ended 31 December 2015						
Trade and other payables	**-**	**135**	**-**	**-**	**-**	**135**
As at 31 December 2015	**-**	**135**	**-**	**-**	**-**	**135**
Year ended 31 December 2015						
Trade and other payables	-	60	-	-	-	60
As at 31 December 2016	**-**	**60**	**-**	**-**	**-**	**60**

Credit Risk

The Group trades only with recognised, creditworthy third parties. With respect to credit risk arising from the other financial assets of the Group, which is comprised of cash and receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of cash and cash equivalents. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

or equivalent. As of December 31, 2016 and 2015, there were no past due or impaired financial assets.

The Company maintains bank accounts in Australia with an Aa2 credit rated bank and in the United Kingdom a AA- bank. The table below summarizes the Group's and Company's exposure to credit risk for the components of the balance sheets:

	Note	GROUP		COMPANY	
		2016 **£'000**	2015 £'000	**2016** **£'000**	2015 £'000
Cash and cash equivalents	15	**405**	47	**405**	44
Trade and other receivables	14	**14**	1	**14**	1
		419	48	**419**	45

Fair values of financial assets and financial liabilities

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

	2016		2015	
	Carrying Values £'000	**Fair Values £'000**	Carrying Values £'000	Fair Values £'000
Financial assets				
Cash and cash equivalents	**405**	**405**	47	47
Trade and other receivables	**14**	**14**	1	1
Loans and receivables	**419**	**419**	48	48
Financial liabilities				
Trade and other payables	**(60)**	**(60)**	(132)	(132)
Financial liabilities measured at amortised cost	**(60)**	**(60)**	(132)	(132)
	359	**359**	(84)	(84)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements.

	2016		2015	
	Carrying Values £'000	**Fair Values £'000**	Carrying Values £'000	Fair Values £'000
Financial assets				
Cash and cash equivalents	**405**	**405**	44	44
Trade and other receivables	**14**	**14**	1	1
Loans and receivables	**419**	**419**	45	45
Financial liabilities				
Trade and other payables	**(60)**	**(60)**	(135)	(135)
Financial liabilities measured at amortised cost	**(60)**	**(60)**	(135)	(135)
	359	**359**	90	90

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.

24. RELATED PARTY TRANSACTIONS

Payments to related parties

Save as disclosed below there were no related party transactions during the year other than remuneration to Directors as disclosed in note 7 and the loan with GMI as disclosed in note 13.

Administration Services Agreement

On 26 July 2016 the Company entered into a Services Management Agreement with Transcontinental Investments Pty Ltd ("TRG") for the provision of Australian head office location, company secretarial, administrative support and corporate management services and facilities. In exchange for the services provided TRG receives a monthly fee of A$3,000. To 31 December 2016 a total of A$15,000 (£8,700) had been paid under the terms of this agreement.

25. CAPITAL COMMITMENTS

Capital Commitments as at 31 December 2016 are listed below:

	Less than 1 year	Between 1 & 2 years
Jimbolia licence	-	-

There are no capital commitments on Jimbolia as at 31 December 2016. The licence Operator continues a sole operation in 2017. Zeta retains all rights to participate in future exploration activities.

26. OPERATING LEASE COMMITMENTS

The Group has office leasing commitments.

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

	GROUP & COMPANY £'000	
	2016	2015
(I) not later than 1 year	**-**	16
(II) later than 1 year and not later than 5 years	**-**	4
(III) not later than 5 years	**-**	-
Total Operating lease commitments	**-**	20

The office leasing commitments belonged to the Romanian subsidiary Zeta Petroleum (Romania) SRL which was sold to GMI pursuant to the terms of the SPA and is no longer part of the Group.

27. CAPITAL MANAGEMENT

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

The Company manages its working capital by raising funds through the issuance of ordinary shares in the parent company Zeta Petroleum plc, debt finance and divestment of licence interests. In 2016 a total of $1.08 million (£714,000) was raised via a fully subscribed Rights Issue (Note 17). The Company defines capital as consisting of Share Capital and Share Premium. The balance of Share Capital and Share Premium at year end was £10,396 million (2015: £9,653 million). Capital commitments involve the initial acquisition of licence interests that the Company believes has the potential to contain commercially viable oil and gas reserves and then the exploration and/or appraisal of these licences by following a work programme that achieves internally stated timelines as well as licence commitments imposed by local governments.

There are no externally imposed capital requirements imposed on the Company.

28. POST BALANCE SHEET EVENTS

There have been no material events post 31 December 2016.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

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

To the extent applicable, the Company has adopted The Corporate Governance Principles and Recommendations (3rd Edition) as published by the ASX Corporate Governance Council (Recommendations).

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

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

This statement has been approved by the Company's Board of Directors ('Board') and is current as at 29 March 2017.

The ASX Principles and Recommendations and the company's response as to how and whether it follows those recommendations are set out below.

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

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
1.	**Lay solid foundations for management and oversight**	

ZETAPETROLEUMPLC

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	The Board is ultimately accountable for the performance of the company and provides leadership and sets the strategic objectives of the company. It is responsible for overseeing all corporate reporting systems, remuneration frameworks, governance issues, and stakeholder communications. Decisions reserved for the Board relate to those that have a fundamental impact on the company, such as material acquisitions and takeovers, dividends and buybacks, material profits upgrades and downgrades, and significant closures. Management is responsible for implementing Board strategy, day-to-day operational aspects, and ensuring that all risks and performance issues are brought the Boards attention. They must operate within the risk and authorisation parameters set by the Board.
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	The Company undertakes comprehensive reference checks prior to appointing a director, or putting that person forward as a candidate to ensure that person is competent, experienced, and would not be impaired in any way from undertaking the duties of director. The company provides relevant information to shareholders for their consideration about the attributes of candidates together with whether the Board supports the appointment or re-election.
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	The terms of the appointment of a non-executive director, executive directors and senior executives are agreed upon and set out in writing at the time of appointment.
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	The Company Secretary reports directly to the Board through the Chairman and is accessible to all directors.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
1.5	A listed entity should (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: (1) the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	*The Company's Corporate Governance Plan includes a* 'Diversity Policy', *which provides a framework for establishing measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.* Further detail on the Diversity Policy is included in the Strategic Report of the Directors.
1.6	A listed entity should (a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	The Company's Corporate Governance Plan includes a section on performance evaluation practices adopted by the Company. The Chair will review the performance of the Board, its committees (if any) and individual directors to ensure that the Company continues to have a mix of skills and experience necessary for the conduct of its activities. A performance evaluation of the board was not performed during the 2016 year.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
1.7	A listed entity should (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	The Company's Corporate Governance Plan includes a section on performance evaluation practices adopted by the Company. The Chair will monitor the Board and the Board will monitor the performance of any senior executives who are not Directors, including measuring actual performance against planned performance. A performance evaluation of senior executives was not performed during the year. The company does have any executive positions at 31 December 2016.
2.	**Structure the board to add value**	
2.1.	The board of a listed entity should: (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	No formal nomination committee has been established by the Company as yet as the Board considers the Company is not currently of the relevant size or complexity to warrant the formation of a nomination committee. The Board, as a whole, currently serves as the nomination committee. The Company's Corporate Governance Plan includes a Nomination Committee Charter, which discloses the specific responsibilities of the committee. Where necessary, the Board seeks advice of external advisers in connection with the suitability of applicants for Board membership. Once the Board deems that the Company warrants a Nomination Committee, one will be formed in compliance with this Recommendation.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
2.2.	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	The Board's skills matrix indicates the mix of skills, experience and expertise that are considered necessary at Board level for optimal performance of the Board. The matrix reflects the Board's objective to have an appropriate mix of industry and professional experience including skills such as leadership, governance, strategy, finance, risk, IT, HR, policy development, international business and customer relationship. External consultants may be brought it with specialist knowledge to address areas where this is an attribute deficiency in the Board.
2.3.	A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director.	Those directors who are considered to be independent are specified in the Directors report. The length of service of each of the Company's directors is included in the Directors Report.
2.4.	A majority of the board of a listed entity should be independent directors.	As disclosed in the director's report, 50% of the Company's directors are independent. This includes the Company's Chairman Mr Stephen West.
2.5.	The Chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	The Chairman of the Company is Mr Stephen West. He is an independent director.
2.6.	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	The Chairman and Company Secretary brief and inform New Directors on all relevant aspects of the Company's operations and background. A director development program is also available to ensure that directors can enhance their skills and remain abreast of important developments.
3.	**Act ethically and responsibly**	
3.1.	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	The Company's Corporate Governance Plan includes a *'Corporate Code of Conduct'*, which provides a framework for decisions and actions in relation to ethical conduct in employment.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
4.	**Safeguard integrity in financial reporting**	
4.1.	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	The Company is partially in compliance with this requirement. The Company has established an Audit Committee consisting or Mr Simon Trevisan who serves as Committee Chairman and Mr Timothy Osborne. Both Mr Trevisan and Mr Osborne are not considered to be independent. The Company Secretary attends the meetings of the Audit Committee. Details of the qualifications and experience of the members of the Committee is detailed in the 'General Information' section of the 2016 Annual Accounts. The Company's Corporate Governance Plan includes an Audit Committee Charter, which discloses its specific responsibilities. The Audit Committee held two meetings during 2016 with full attendance by both members on both occasions.
4.2.	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	As at 31 December 2016, the company does not have a CEO or a CFO. A declaration otherwise provided by people in these roles has been provided by two directors of the Company.
4.3.	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	The audit engagement partner attends the AGM and is available to answer shareholder questions from shareholders relevant to the audit.
5.	**Make timely and balanced disclosure**	

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
5.1.	A listed entity should (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	The Company has a continuous disclosure program in place designed to ensure the compliance with ASX Listing Rule disclosure and to ensure accountability at a senior executive level for compliance and factual presentation of the Company's financial position.
6.	**Respect the rights of shareholders**	
6.1.	A listed entity should provide information about itself and its governance to investors via its website.	The Company maintains information in relation to governance documents, directors and senior executives, Board and committee charters, annual reports, ASX announcements and contact details on the company's website.
6.2.	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	The Company encourages shareholders to attend its AGM and to send in questions prior to the AGM so that they may be responded to during the meeting. It also encourages ad hoc enquiry via email which are responded to. Written transcripts of the meeting are made available on the company's website.
6.3.	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Refer to commentary at Recommendation 6.2.
6.4.	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	The Company engages its share registry to manage the majority of communications with shareholders. Shareholders are encouraged to receive correspondence from the company electronically, thereby facilitating a more effective, efficient and environmentally friendly communication mechanism with shareholders. Shareholders not already receiving information electronically can elect to do so through the share registry, Computershare Australia at www.computershare.com/au.
7.	**Recognise and manage risk**	

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
7.1.	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework	The Company is currently not in compliance with this recommendation as it does not have a risk committee, this function is performed by the Board as a whole. The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company's Corporate Governance Plan includes a risk management policy.
7.2.	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place	The Company's Corporate Governance Plan includes a risk management policy. The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board Meetings.
7.3.	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	The Company is currently not in compliance with this recommendation as it does not maintain a separate internal audit function as the Board considers the Company is not currently of the relevant size or complexity to warrant the formation of a formal internal audit function. The Board, as a whole, currently evaluates and continually strives for improvement in the effectiveness of risk management and internal control processes. The Audit Committee receives the report from the Company's external auditors which includes an assessment of internal control processes. In the event that weaknesses in internal control processes are identified these matters are brought to the attention of and dealt with by the Board.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
7.4.	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Refer to the Company's Annual Report for disclosures relating to the company's material business risks (including any material exposure to economic, environmental or social sustainability risks). Refer to commentary at Recommendations 7.1 and 7.2 for information on the company's risk management framework.
8.	**Remunerate fairly and responsibly**	
8.1.	The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	The Board has not established a formal Remuneration Committee at this point in the Company's development. It is considered that the size of the Board along with the level of activity of the Company renders this impractical and the Board, acting without the affected director participating in the decision-making process, currently serves as a remuneration committee. The Company's Corporate Governance Plan includes a Remuneration Committee Charter, which discloses its specific responsibilities. Remuneration to the Company's non-executive directors is by way of director fees or ordinary shares only, with the level of such salary or fees as the context requires, having been set by the Board to an amount it considers to be commensurate for a company of its size and level of activity. There is currently no link between performance and remuneration, however, it is the intention of the Board to re-assess this once the Company expands operations. Further there are no schemes for retirement benefits in existence.

UNAUDITED CORPORATE GOVERNANCE STATEMENT

	PRINCIPLES AND RECOMMENDATIONS	COMMENT
8.2.	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	The Board has distinguished the structure of non-executive director's remuneration from that of executive directors and senior executives. The Company's Articles of Association provides that the remuneration of non-executive Directors will be not be more than the aggregate fixed sum set by the Articles of Association and subsequently varied by resolution at a general meeting of shareholders. The Board is responsible for determining the remuneration of executive directors and senior executives (without the participation of the affected director). It is the Board's objective to provide maximum stakeholder benefit from the retention of a high-quality Board and executive team by remunerating executive directors and senior executives fairly and appropriately with reference to relevant employment market conditions and by linking the nature and amount of executive directors' and senior executives emoluments to the Company's financial and operational performance.
8.3.	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	The use of derivatives or other hedging arrangements for unvested securities of the company or vested securities of the company which are subject to escrow arrangements is prohibited. Where a director or other senior executive uses derivatives or other hedging arrangements over vested securities of the company, this will be disclosed.

ASX ADDITIONAL INFORMATION

SHAREHOLDINGS

The issued capital of the Company as at 15 March 2017 is 27,165,111 ordinary shares held by a total of 335 shareholders. Each share entitles the holder to one vote.

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

Classification of Shareholders as at DATE AS ABOVE:

Number of ordinary shares held	Number of holders in each class
1 – 1,000[1]	164
1,001 – 5,000	81
5,001 – 10,000	16
10,001 – 100,000	44
100,001 – and over.	30

[1] These shareholdings constitute unmarketable parcels of ordinary shares

Top 20 Shareholders as at DATE AS ABOVE:

Rank	Name	Units	%
1	Transcontinental Investments Pty Ltd	6,400,000	23.56
2	GM Investment & Co Limited	5,748,058	21.16
3	Precision Opportunities Fund	1,666,667	6.14
4	Glennbrown Pty Ltd	1,165,000	4.29
5	Dragon Gas Limited	850,000	3.13
6	Greensea Investments Pty Ltd	850,000	3.13
7	Mr P Watts	800,100	2.95
8	HSBC Custody Nominees	769,065	2.83
9	Hot Chilli Investments Pty Ltd	701,323	2.58
10	Cresthaven Investments Pty Ltd	521,684	1.92
11	Mr B Hodges	516,642	1.90
12	B Popescu	495,661	1.82
13	Mr B Mitchell & Mrs M Mitchell	382,587	1.41
14	Helmet Nominees Pty Ltd	375,000	1.40
15	Joke Pty Ltd	375,000	1.40
16	Mr J Thompson & Mrs S Newman Heath	375,000	1.40
17	Chelsea Investments (WA) Pty Ltd	350,000	1.30
18	West Key Pty Ltd	350,000	1.30
19	Silverlight Holdings Pty Ltd	300,879	1.10
20	Mr I Thompson & Mr P Thompson	260,000	1.00

ASX ADDITIONAL INFORMATION

RESTRICTED SECURITIES

There were no restricted securities as at 31 December 2016.

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

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