

# **ZENITH ENERGY LTD.**

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2017 AND 2016

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## COMPANY INFORMATION

### Directors

Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)  
Andrea Cattaneo (President, CEO and Director)  
Luigi Regis Milano (Director)  
Dario E. Sodero (Non-Executive Director)  
Saadallah Al-Fathy (Non-Executive Director) - appointed 22 March 2017  
Erik Larre (Non-Executive Director)

### Registered Office

20th Floor, 250 Howe Street  
Vancouver, BC V6C 3R8, Canada

### Business Address

15th Floor, Bankers Court  
850 – 2nd Street S.W. , Calgary, Alberta, T2P 0R8 Canada  
Telephone Number: +1 (587) 315 9031

### Registered Corporation Number

BC0803216

### Website

[www.zenithenergy.ca](http://www.zenithenergy.ca)

### Broker

Allenby Capital Limited  
3 St. Helen's Place  
London EC3A 6AB, United Kingdom

### Independent auditor

PKF Littlejohn LLP  
1 Westferry Circus, Canary Wharf  
London, E14 4HD, United Kingdom

### Principal Bankers

Canadian Western Bank  
Calgary Main, 606 4 St SW  
Calgary AB T2P 1T1

Barclays Bank PLC  
Priory Place, Level 3 New London Road  
Chelmsford, Essex CM2 0PP

CENTTRIP LIMITED  
Clere House, 3 Chapel Place  
London EC2A 3DQ

## **COMPANY INFORMATION (CONTINUED)**

### **Competent Person**

Chapman Petroleum Engineering Ltd  
1122 4th Street S.W., Suite 700  
Calgary Alberta T2R 1M1, Canada

### **Depository and Registrar**

Computershare Investor Services Plc  
The Pavilions Bridgwater Road  
Bristol, BS99 6ZZ, United Kingdom

Computershare Trust Company of Canada  
100 University Avenue, 8th Floor  
Toronto, ON M5J 2Y1, Canada

## CHAIRMAN'S STATEMENT

I hereby present the Financial Statements for the year ended March 31, 2017.

During the year the Group achieved the following important milestones:

- On August 11, 2016 the handover of the Azerbaijan assets was formally completed and the Group commenced crude oil production of approximately 275 barrels of oil per day in Azerbaijan;
- On January 11, 2017 – The Group's entire Common Share capital was admitted to the standard listing segment the London Stock Exchange's Main Market.
- On February 20, 2017 the Group announced the sale of its operations in Argentina to a group of local energy investors.
- On March 30, 2017 the Group acquired a Swiss based company, Altasol SA.

During the year the Group reported total comprehensive income of CAD\$ 568,973k (2016 - loss of CAD \$7,817k) which arose predominantly from the gain on the business acquisition of the assets in Azerbaijan.

As at the date of this report the Group has approximately CAD\$3,154k of cash balances.

Following its listing on the London Stock Exchange, the Group has focused on the development of the assets in Azerbaijan.

On January 24, 2017 the Group announced the signing of a well workover contract and engagement of highly experienced local drilling Group to initiate and execute the workover of the first two wells in the Azerbaijan program (M-195 and M-45).

The Group plans to continue to focus on both international oil and natural gas exploration opportunities as well as continuing its search for smaller producing assets in North America, Italy and Azerbaijan. Management intends to focus its efforts toward acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator.

**Jose Ramon Lopez-Portillo**  
Chairman

June 27, 2017

## **CEO STATEMENT**

Zenith Energy Ltd is an international oil and gas production company, incorporated in Canada, listed on the London Stock Exchange ticker ("ZEN") and the Toronto Stock Exchange Venture ticker ("ZEE").

Zenith Energy Ltd focuses on the acquisition and further development of proven onshore oil and gas fields where production has declined over time, but which are capable of increased productivity following an injection of capital and optimisation through its corporate engineering and technical expertise. To maximise shareholder value, Zenith targets acquisitions of production opportunities that offer strong logistics and close proximity to refineries and pipelines. Zenith's management and directors have extensive international and governmental experience and possess the technical knowledge to execute this strategy.

Zenith currently operates the largest onshore oilfield of Azerbaijan through its fully owned subsidiary and has gas fields in Italy. The Group's Italian operations also include the production of electricity and condensate.

The year ended March 31, 2017 has seen many of the projects on which the Group has been working hard take shape and substance, using considerable financial and working resources, of which we can now be proud.

On August 24, 2016 the Group announced the start of crude oil production of approximately 300 barrels of oil per day in Azerbaijan under Zenith's banner. This milestone marks the successful completion of the handover process and the transfer of operatorship to Aran Oil Operating Company, a 100% subsidiary of Zenith Energy Ltd ("Zenith Aran").

The formal handover process largely encompassed the transfer and registration of assets, including infrastructure, oil facilities, oil service vehicles and oil wells in the name of Aran Oil Operating Company.

Azerbaijan represents an unprecedented opportunity for energy development and the Directors are committed to a long term relationship. The support of the Government and SOCAR throughout the process of establishing the Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) has helped the Group establish its presence. The Group now seeks to demonstrate Zenith's strengths as an operator in one of the largest and most storied oil and gas countries in the world and have turned the Group's focus to increasing the daily production of oil from the Muradxanli, Zardab and Cafarli fields.

On January 11, 2017 Zenith Energy Ltd. announced that its entire Common Share capital, consisting of 98,564,867 Common Shares, was admitted to the standard listing segment of the Official List and to trading on the London Stock Exchange's Main Market under the ticker symbol "ZEN".

The Group are pleased to have successfully completed Zenith's admission to trading on the London Stock Exchange's main market and believe that the listing on the Official List will provide a supportive platform to help the Group achieve our ambitious growth objectives.

On February 21, 2017 the Group announced the sale of its operations in Argentina to a group of local energy investors.

## CEO STATEMENT (CONTINUED)

The Group acquired the Don Ernesto and Don Alberto fields in July 2010, but unfortunately in August 2015, due to a series of circumstances beyond the Group's control, production at Zenith's Argentine operations was suspended. This was caused by the collapse of a major storage tank owned by Yacimientos Petroliferos Fiscales ("YPF"), Argentina's national oil company. This meant that Zenith's production of oil could no longer be transported through YPF pipelines, resulting in the suspension of production in the Comodoro Rivadavia area where these fields are located.


To date, the issues affecting the transportation of oil have not been fully resolved and a persisting uncertainty on the recommencement of operations has led Zenith to reconsider its operational involvement in Argentina.

The disposal of our activities in Argentina was a strategic move. It enables the Group to positively recalibrate its operational footprint in a way that coherently reaffirms our Italian energy production interests and specifically the primary importance of our transformational opportunity in Azerbaijan. The risk of overstretching where the management team is active on too many fronts is now reduced.

The Board of Directors and the management team are now in a position to direct undistracted attention to the Group's primary objectives of achieving incremental production increases in Azerbaijan and continuing stable energy production activities in Italy.

Zenith is also now able to evaluate the acquisition of additional production opportunities in the European and Caspian region, building on the momentum of its recent progress to further support the Group's continued expansion.

The last 12 months have been a transformational period for Zenith Energy Ltd and I look forward to updating our shareholders on the Group's progress over the course of the fiscal year 2018.



Andrea Cattaneo

President, CEO and Director

27 June 2017

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### Directors

#### **Jose Ramon Lopez-Portillo (*Chairman and Non-Executive Director*)**

Mr. Lopez-Portillo has been managing Director and then Chairman of the Board since 24 September 2007. He is an economist with a large network of business contacts worldwide, and who previously served as Mexican Permanent Representative in Rome, Italy. Mr. Lopez-Portillo is a leading researcher in the energy security of Mexico and acts as Deputy Minister at Mexico's Planning and Budget Secretariat. Mr. Lopez-Portillo holds a Doctorate degree in Political Sciences and International Relations from the University of Oxford.

#### **Andrea Cattaneo Della Volta Cattaneo Adorno (*Director, President and CEO*)**

Mr. Cattaneo has been a Director of the Company since 9 December 2008 and has served as President and CEO of the Group since 2009. He is an energy specialist with a focus on emerging countries and has 30 years' experience in advising governments in financial, industrial and energy-related matters. Mr. Cattaneo has strong expertise and experience in structuring and negotiating contracts in the international markets and in particular in the oil industry, and also in the management of oil fields. He also has significant experience in former socialist countries and in 1985 he arranged the first US\$ loan to Vietnam, the then third poorest country in the world. Mr. Cattaneo is a former Partner of the Bolsa de Comercio de Buenos Aires (BCBA), the Buenos Aires Stock Exchange and is a former member of the Business Advisory Council to the Great Tumen Initiative, a United Nations project for regional economic cooperation in Northeast Asia.

#### **Luigi Regis Milano (*Director*)**

Mr. Regis Milano was appointed as Director of the Company on 24 September 2008 and served as Chief Financial Officer from 28 November 2012 until 7 March 2016. He is also currently Managing Director of the Company's Italian subsidiary, Canel Italia S.r.l. He has a strong background in petroleum chemistry, having developed an extensive network of relationships within the European and global oil industry over the course of more than 60 years' experience. He has acted as executive director for a large trading company specialising in crude oil and petroleum products, and also as executive director of a large European refinery. He is currently a director and part owner of an Italian oil refinery (and has been since 2000).

#### **Dario Ezio Sodero (*Non-Executive Director*)**

Mr. Sodero was appointed to the Board on 24 June 2009. As an experienced energy industry executive with 47 years of experience in North America, the Sub-Arctic, North Africa and the Middle East, Mr. Sodero has strong geological, exploration and technical expertise. Mr. Sodero is a director of Rockbridge Resources Inc., a TSXV publicly traded oil and natural gas company, since January 2011, and has formerly acted as director and executive of several other TSX- and TSXV-listed exploration and production companies. Mr. Sodero holds a Doctorate degree in Geology from the University of Turin, Italy.



**Saadallah Al-Fathi (Non-Executive Director)**

Mr. Saadallah Al-Fathi was appointed as a Director on 22 March 2017 and has served as Head of the Energy Studies Department, Organization of Petroleum Exporting Countries (OPEC) in Vienna, Austria as well as OPEC Representative to the Executive Council of the World Energy Council and Member of its Studies and Developing Countries Committee. Following these high-profile institutional positions Mr. Al-Fathi has served as an advisor to several government and private entities as well as establishing himself as an award-winning oil and gas industry researcher and columnist. Mr. Al-Fathi has authored a number of research papers on the oil and gas sector and was recently joint winner of the 2016 scientific research award of the Organization of the Arab Petroleum Exporting Countries.

**Erik Sture Larre (Non-Executive Director and Chairman of the Audit Committee)**

Mr. Larre has been a Director of the Company since 22 March 2011. Mr. Larre specialises in real estate, banking and finance matters, and also has experience in the oil and gas industry.

Mr. Larre has strong business connections internationally and in particular within the Nordic business community. Mr. Larre is a director of several real estate companies around the world and has acquired wide geographical experience in countries in Eastern and Southern Europe and the Middle East. Mr. Larre holds a Master's degree in Civil Engineering from the Polytechnic University of Milan, Italy and speaks six languages.

**Senior Management**

**Luca Benedetto (Chief Financial Officer)**

Luca Benedetto is an Italian national, trained in Italy as a registered accountant with further education in IFRS accounting and consolidation at IPSOA Milan. He has more than twenty-five years of accounting, auditing and financial administration experience. Mr. Benedetto began his professional career as an accountant and computer programmer responsible for financial software development and worked for the Italian division of IBM as an internal auditor and accountant as well as providing staff training in these aforementioned fields. He also served for seven years as a financial and administrative officer in a well-established Italian company specialising in the construction of fuel and water storage tanks.

He joined Zenith Energy Ltd in 2013 as Chief Financial Officer of the Group's Italian subsidiary, Canoe Italia S.r.l., and has since progressed to also hold the position of Group Financial Controller. In this capacity he has been directly involved in the monitoring of business performance, cash flow management, budgetary oversight, accounts team supervision, accounts preparation and strategic planning. Since January 2016 he has also been responsible for compiling and reviewing the quarterly Consolidated Financial Statements and Management's Discussion and Analysis of the Group.

## DIRECTORS' REPORT

The Directors present their report and audited financial statements of the Group for the year ended March 31, 2017.

The Company's Ordinary shares were admitted to Listing on The London Stock Exchange, on Official List pursuant to Chapter 14 of the Listing Rules, published by the UK Listing Authority under section 73A of FSMA as amended from time to time, which sets out the requirements for Standard Listings, on 11 January 2017.

### Review of Business

The Company is an international oil and gas exploration, development and production company incorporated and domiciled in Canada with operations in Italy and Azerbaijan.

The Group's principal assets in Azerbaijan and Italy are held through: (i) Zenith Aran Oil Company, which hold an 80% interest in three petroleum producing onshore fields in Azerbaijan; and (ii) Canoeel Italia S.r.l. (in which the Group has a 98.64% shareholding), which holds various working interests in 13 onshore exploration and production properties in Italy.

Highlights for the year ended March 31, 2017 include the following:

- During the year ended March 31, 2017 the Group sold 65,432 bbls of oil from its properties in Azerbaijan. This data is not comparable to the prior year.

It is important to note that the data regarding the year 2017 includes the oil from August 11 2016 to March 31, 2017 and therefore does not represent data from 12 months of production.

At the end of March 2017, there were 272 bbls of unsold oil production in Azerbaijan held in inventory which were sold in subsequent months. The average daily production rate is not comparable with past year.

- During the year ended March 31, 2017, the Group sold 25,124 mcf of natural gas from its Italian properties versus 92,345 mcf of natural gas in the 2016 comparative period, a decrease of 73%. The predominant reason for the decrease is a change in classification from gas to electricity from the Torrente Cigno concession. Prior to October 1, 2015, the Group sold its 45% share of this gas to the previous electricity producer and included such sales in oil and gas revenues. Following the Group's acquisition of co-generation equipment and facilities on October 1, 2015, the Group became the new electricity producer for the concession and now classifies its 45% share of Torrente Cigno gas production as gas sales volumes for electricity.
- During the year ended March 31, 2017, the Group sold 807 bbls of condensate from its Italian properties compared to 906 bbls of condensate in the 2016 comparative period, a decrease of 11%.

During the year ended March 31, 2017, the Group sold 9,636 MWh of electricity from its Italian properties, this was a decline from the previous period caused by the need to cease production for 40 days in the Torrente Cigno concession, due to adverse weather conditions.

### **Financial review of activity for the period**

During the year the Group expanded its asset base through the acquisition of interests in Azerbaijan which was formally completed in August 2016 and the Group started crude oil production of approximately 275 barrels of oil per day in Azerbaijan. This resulted in a bargain net purchase of CAD \$579 million being CAD \$1,065 million of Development and Production assets, less future payments of CAD \$6 million for compensatory oil, CAD \$479 million of capital expenditure commitments and CAD \$2 million of decommissioning expenses. This acquisition results in an increase of about CAD \$2million in oil and gas revenues from the prior year.

The Group also disposed its assets in Argentina, in February 2017, to focus on the producing and developing activity in Azerbaijan.

In addition to these events, on January 11, 2017 the Group announced that its entire Common Share capital was admitted to the standard listing segment of the FCA and to trading on the London Stock Exchange Main Market.

In connection with Admission, the Group successfully placed 33,322,143 Common Shares (the "UK Placing") at £0.07 (CAD\$0.11) per share. On completion of the UK Placing the gross proceeds available to the Group were approximately £2,333k (CAD\$3,824k) and the net proceeds were approximately £2,016k (CAD\$3,305k). The Group paid finder's fees of £113,500 and issued 1,114,286 broker warrants exercisable for 24 months from closing at a price of £0.07 per common share to third parties under the placement.

Financial movements in debt during the year related to conversions and repayments of convertible loans in January 2017 the Group paid US\$ 700k (CAD\$943k) from an outstanding USD loan, utilising part of the proceeds from the fundraising aligned with the listing on the London Stock Exchange.

The profit for the year to March 31, 2017 was affected by the gain on the business acquisition of the oil producing assets in Azerbaijan, for CAD \$579 million. During the year the Group paid Production costs of CAD \$3,033k and General and Administrative costs of CAD \$4,155k. It is important to note that included in the costs of the year are non-recurrent costs for the Azerbaijan assets acquisition and the London Stock Exchange listing, of approximately CAD\$2,000k.

### **Cash flow**

Cash used in investing activities totaled CAD\$402k (March 31, 2016 CAD\$576k). The cash from financing activities in 2017 totaled CAD\$5,710k, principally due to the proceeds from admission to the London Stock Exchange, less net repayment of loans.

### **Closing cash**

As at March 31, 2017 the Group held CAD\$3,924k in cash (March 31, 2016 CAD\$138k).

### **Future Developments**

The Group plans to continue focusing on both international oil and natural gas exploration opportunities as well as continuing its search for smaller producing assets in North America, Italy and Azerbaijan. Management intends to focus its efforts towards acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator.

### **Position of Group's Business at the Year End**

During the year, 71,982,824 new Ordinary Shares were issued, as detailed in the Financial Statements (note 12).

#### *At the year end*

At the year end the Group's Statement of Financial Position shows current assets totaling CAD\$5,762k (March 31, 2016 – CAD\$1,492k) and non-current assets totaling CAD\$1,073,334k (March 31, 2016 – CAD\$14,805k).

### **Business strategy**

The Group's strategy is to, inter alia, (i) grow through international acquisitions; (ii) increase the production and reserves from its international inventory of oil and gas assets; (iii) target its operations in areas with advantageous access points for its exploration activities with a reasonably stable economic and business environment; (iv) develop a balanced portfolio of short, medium and long-term opportunities; (v) seek innovative ways to unlock value; (vi) achieve and maintain a robust, well-funded business with the financial flexibility to fund high-impact exploration, appraisal and development programs; and (vii) unlock oil and gas reserves still unexploited in old and marginal oil and gas fields through the use of new technology.

### **Principal Risks and Uncertainties**

The Group operates in an uncertain environment and is subject to a number of risk factors. The Directors consider the following risk factors are of particular relevance to the Group's activities and to any investment in the Group. It should be noted that the list is not exhaustive and that other risk factors not presently known or currently deemed immaterial may apply.

The risk factors are summarised below:

#### **Risks relating to the Group's business strategy**

The Group will be dependent on the ability of the Directors to identify suitable investment opportunities and to implement the Group's strategy. There is no assurance that the Group's activities will be successful in acquiring a suitable investment that will ultimately be developed.

**Activities in the oil and gas sectors can be dangerous, posing health, safety and environmental risks**

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property as well as the environment or personal injury.

In particular, the Group may produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Group.

In accordance with industry practice, the Group is not fully insured against all of these risks, nor are all such risks insurable. Although the Group maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Group could incur significant costs. Oil and natural gas production operations are also subject to risk of encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations.

Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

**Environmental and other regulatory requirements**

The event of a breach with any environmental or regulatory requirements may give rise to reputational, financial or other sanctions against the Group, and therefore the Board considers these risks seriously and designs, maintains and reviews its policies and processes so as to mitigate or avoid these risks. Whilst the Board has a good record of compliance, there is no assurance that the Group's activities will always be compliant.

**Brexit**

The Group does not foresee any material issues with Brexit at this stage and indeed would not look to conclude any transaction where the possibility of a detrimental effect caused by Brexit would be likely. There may be issues raising funds from investors in the short term now that Article 50 has been triggered by the UK Government. However, investor markets in the UK have continued to be strong and it is too early to say if there will be any direct impact. The Directors continue to monitor events and as the Directors receive more information from the Government and the EU they will assess the impact to the Group and take appropriate steps as required.

**Market Conditions**

Market conditions, including general economic conditions and their effect on exchange rates, interest rates and inflation rates, may impact the ultimate value of the Group regardless of its operating performance. The Group also faces competition from other organisations, some of which may have greater resources or be more established in a particular territory. The Board considers and reviews all market conditions to try and mitigate any risks that may arise from these.

**Zenith Energy Ltd.**  
**Annual Report & Financial Statements**  
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**Substantial shareholders**

As at June 25, 2017, the total number of issued Ordinary Shares with voting rights in the Company was 116,577,230.

The Company has been notified of the following interests of 3 per cent or more in its issued share capital as at June 25, 2017.

<b>PARTY NAME</b>	<b>NUMBER OF ORDINARY SHARES</b>	<b>% OF SHARE CAPITAL</b>
MIRABAUD & CIE SA	11,556,167	9.91
NOVUM SECURITIES LTD	9,000,000	7.72
OLIVER WILLET	5,563,243	4.77
GUNSYND Plc	5,400,000	4.63
BASTION ASSETS TRUSTEE LIMITED TR	4,970,650	4.26
POLE POSITION SRL	4,495,740	3.86
LATAM INVESTMENT COMPANY INC	4,382,875	3.76
TONSENHAGEN FORRETNINGSSENTRUM	4,334,068	3.72
GRIT PLC	3,728,571	3.20

**Dividends**

The Directors do not propose a dividend in respect of the year ended March 31, 2017 (March 31, 2016: nil).

**Future developments and events subsequent to the year end**

Further details of the Group's future developments and events subsequent to the year end are set out in note 29.

**Going Concern**

The Group's business activities, together with facts likely to affect its future operations and financial and liquidity positions are set out in the Chairman's Statement and also note 2 of the financial statements. In addition note 25 to the financial statements discloses the Group's financial risk management policy and note 3 details further considerations made by the Director in respect of going concern.

The Directors, having made due and careful enquiry, are of the opinion that the Group has adequate working capital to execute its operations over the next 12 months. The Directors therefore have made an informed judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the annual financial statements.

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**Auditors**

The auditors, PKF Littlejohn LLP, have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

**Statement of Directors' responsibilities**

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

The Directors are required to prepare financial statements for each financial year. The Directors have elected to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs). The Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

**Disclosure of Information to Auditors**

So far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Approved by the Board dated 27 June 2017



**Andrea Cattaneo**  
**President, CEO and Director**

## GOVERNANCE REPORT

### General

The board of directors (the “Board”) of Zenith Energy Ltd. (the “Corporation”) recognises that good corporate governance is of fundamental importance to the success of the Corporation.

The Corporation’s governance practices are the responsibility of the Board.

### Leadership

The Group is headed by an effective Board which is collectively responsible for the long-term success of the Group.

### The Board

The Board is ultimately responsible for the effectiveness of the Group’s system of internal controls. Its key strategy has been to establish financial reporting procedures that provide the Board of Directors with a reasonable basis to make judgements as to the financial position and prospects of the Group.

Executive directors and non-executive directors have been appointed by the Board to assist with the implementation of this strategy and report progress to the Board.

The Corporation’s board of directors consists of six members namely

- Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)
- Andrea Cattaneo (President, CEO and Director)
- Luigi Regis Milano (Director)
- Dario E. Sodero (Non-Executive Director)
- Saadallah Al-Fathy (Non-Executive Director)
- Erik Larre (Non-Executive Director)

### Directorships and partnerships

In addition to their respective roles and directorships at the Group, the Directors are members of the administrative, management or supervisory bodies (the “directorships”) or partners of the following companies or partnerships:

<b>Name</b>	<b>Current directorships/partnerships</b>
Jose Ramon Lopez-Portillo	Hybridair Ltd World SkyCat Ltd
Luigi Regis Milano	DP Lubrificanti S.r.l. Pole Positions S.r.l.
Andrea Cattaneo	–
Dario E. Sodero	Pianaval Resources Ltd. Rockbridge Resources Inc.
Saadallah Al-Fathy	–



Erik Larre

Black Sea Property EME Int. Ltd  
German Property AS TF Italia Srl  
Tonsenhagen Forrethingssentrum AS  
Tonsenhagen Forrethingssentrum 2

### **Orientation and continuing education**

The Board is responsible for the orientation and education of new members of the board of directors and all new directors are provided with copies of the Group's board and committee mandates and policies, the Group's by-laws, documents from recent Board meetings and other reference materials relating to the duties and obligations of directors, the business and operations of the Corporation. New directors are also provided with opportunities for meeting and holding discussions with senior management and other directors.

Prior to joining the board, each new director will meet with the Chief Executive Officer of the Group CEO.

The CEO is responsible for outlining the business and prospects of the Group, both positive and negative, with a view to ensuring that the new director is properly informed to commence his duties as a director.

Each new director is also given the opportunity to meet with the auditors and counsel to the Group. As part of the annual Board of Directors' assessment process, the Board of Directors determines whether any additional education and training is required for its members.

### **Ethical business conduct**

The directors encourage and promote a culture of ethical business conduct through communication and supervision as part of their overall stewardship responsibility. In addition, the Corporation has adopted a Code of Conduct which addresses the Corporation's continuing commitment to integrity and ethical behaviour. The Code of Conduct establishes procedures that allow directors, officers and employees of the Group to confidentially submit their concerns to the Chief Executive Officer or the Chairman of the Board regarding questionable ethical, moral, accounting or auditing matters, without fear of retaliation. To the Corporation's knowledge there have been no departures from this Code of Conduct that would necessitate the filing of a material change report.

A copy of the Code of Conduct is available to review at the head office of the Corporation during business hours.

### **Nomination of Directors**

The Board as a whole is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders of the Group, with the goal of ensuring that the board consists of an appropriate number of directors who collectively possess the competencies identified as being appropriate to the effectiveness of the board as a whole.

## Remuneration

The Remuneration Committee is responsible for reviewing the Group's overall compensation strategy, and is responsible for reviewing and recommending for approval the salaries and compensation of the Corporation's executive officers.

The Compensation Committee also reviews the compensation of the outside directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable organizations.

See the "Director's Remuneration Report" for details of compensation paid to Directors for the year ended March 31, 2017.

## Board Committees

The Corporation's Board of Directors has three committees, the Audit Committee, the Remuneration Committee and the Corporate Governance Committee.

### (a) Audit Committee

The Audit Committee comprises Jose Ramon Lopez-Portillo, Dario Sodero and Erik Larre and it is chaired by Erik Larre. The Audit Committee is expected to meet at least four times a year and otherwise as required. It has responsibility for ensuring that the financial performance of the Group is properly reported on and reviewed, and its role includes monitoring the integrity of the financial statements of the Group (including annual and interim accounts and results announcements), reviewing the effectiveness of the Group's internal control review function and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors and advising on the appointment of external auditors. The Audit Committee will have unrestricted access to the Group's external auditors. The ultimate responsibility for reviewing and approving the annual reports and accounts and the interim reports remains with the Board. The Audit Committee will give due consideration to laws and regulations and the requirements of the Listing Rules. The Group has an Audit Committee Charter.

### (b) Remuneration Committee

The Remuneration Committee comprises Jose Ramon Lopez-Portillo, Luigi Regis Milano and Saadallah Al-Fathy and is chaired by Luigi Regis Milano. It is expected to meet not less than twice a year and at such other times as required. The Remuneration Committee has responsibility for determining the Group's policy on the remuneration packages of the Group's chief executive, the Chairman, the executive and non-executive directors, the Company secretary and other senior executives. The Remuneration Committee also has responsibility for (i) recommending to the Board a compensation policy for directors and executives and monitoring its implementation; (ii) approving and recommending to the Board and the Group's Shareholders the total individual remuneration package of the chairman, each executive and non-executive director and the chief executive officer (including bonuses, incentive payments and share options or other share awards); and (iii) approving and recommending to the Board the total individual remuneration package of all other senior executives (including bonuses, incentive payments and share options or other share awards), in each case within the terms of the Group's remuneration policy and in consultation with the chairman of the Board and/or the chief executive officer. No Director or manager may be involved in any discussions as to their own remuneration.

**(c) Corporate Governance Committee**

The Corporate Governance Committee comprises Andrea Cattaneo, Dario Sodero and Jose Ramon Lopez-Portillo and it is chaired by Dario Sodero. It is expected to meet not less than once a year and at such other times as required. The Corporate Governance Committee will ensure that the Group has in place sufficient procedures, resources and controls to enable it to comply with its continuing obligations as a company admitted to the Official List. The Corporate Governance Committee will also monitor the Group's procedures to approve (a) announcements to ensure that the information disclosed by the Group is timely, accurate, comprehensive and relevant to the business of the Group and (b) any share dealings by directors or employees or announcements made by the Group to ensure compliance with the Group's policies, the Disclosure Guidance and Transparency Rules and the Listing Rules and such other regulations to which the Group is subject from time to time.

**Assessments**

The Remuneration Committee is responsible for developing an annual assessment of the overall performance of the Board and its committees.

The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. To date, the Remuneration Committee and the Board have not put into place a formal process for assessing the effectiveness of the board as a whole, its committees or individual directors, but will consider implementing one in the future should circumstances warrant. Based on the Corporation's size, its stage of development and the number of individuals on the board of directors, the Remuneration Committee and the Board consider a formal assessment process to be inappropriate at this time. The Remuneration Committee and the Board plan to continue evaluating the Board's effectiveness on an ad hoc basis.

## DIRECTORS' REMUNERATION REPORT

The Group has a Remuneration Committee.

The Directors who held office at March 31, 2017 and who had beneficial interests in the Ordinary Shares of the Company are summarised as follows:

Director	Position
Andrea Cattaneo	CEO&President
Luigi Regis Milano	Non-Executive Director
Jose Ramon Lopez-Portillo	Chairman
Dario Sodero	Non-Executive Director
Erik Larre	Non-Executive Director
Saadallah Al-Fathi	Non-Executive Director

Details of these beneficial interests can be found in the Directors' Report.

### Directors' emoluments and compensation (audited)

Set out below are the emoluments of the Directors for the period ended March 31, 2017 (CAD\$'000):

Name of Director	Salary and fees		Taxable benefits	Bonus and long term benefits	Pension related benefits	Other	Total	2016 Total
	From Company (CAD \$'000)	From subsidiary undertakings (CAD \$'000)	(CAD \$'000)	(CAD \$'000)	(CAD \$'000)	(CAD \$'000)	(CAD \$'000)	(CAD \$'000)
Andrea Cattaneo	200	24	-	-	-	-	224	303
Luigi Regis Milano	-	29	-	-	-	-	29	59
Jose Ramon Lopez-Portillo	-	-	-	-	-	-	-	-
Dario Sodero	-	-	-	-	-	15	15	-
Erik Larre	-	-	-	-	-	-	-	-
Francesco Salimbeni	-	-	-	-	-	-	-	-
Saadallah Al-Fathi	-	-	-	-	-	-	-	-

### Directors

The Directors of the Company during the year and their beneficial interest in the Ordinary shares of the Company at March 31, 2017 were as follows:

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Director	Position	Appointed	Ordinary shares	Stock Options (2)	Warrants
Andrea Cattaneo	CEO&President Non-Executive	24/09/2007	1,547,485	3,000,000	916,666
Luigi Regis Milano (2)	Director	24/09/2007	3,495,740	1,000,000	2,263,808
Jose Ramon Lopez-Portillo	Chairman Non-Executive	24/09/2007	48,000	600,000	-
Dario Sodero (3)	Director Non-Executive	24/06/2009	77,500	500,000	-
Erik Larre (4)	Director Non-Executive	22/03/2011	4,334,068	500,000	1,972,716
Francesco Salimbeni (1)	Director Non-Executive	16/02/2016	-	-	-
Saadallah Al-Fathi	Director	22/03/2017	-	-	-

(1) passed during the year

(2) The 3,495,740 Common Shares stated for Luigi Regis Milano are held by Pole Position SRL, a company controlled by members of Mr. Regis Milano's immediate family. The relevant members of Mr. Regis Milano's immediate family own 100% of the share capital of Pole Position SRL. Mr. Regis Milano is also the sole director of Pole Position SRL.

(3) The 77,500 Common Shares in which Dario Sodero has a beneficial interest are held by Planaval Resources Ltd., a company controlled by Mr. Sodero. Mr. Sodero owns 100% of the share capital of Planaval Resources Ltd.

(4) The 4,334,068 Common Shares in which Erik Larre has a beneficial interest are held by Tonsenhagen Forretningsentrum, a company controlled by Mr. Larre. Mr. Larre owns 100% of the share capital of Tonsenhagen Forretningsentrum.

All of the above stock options were granted as of November 18, 2016.

At the date of this report, the position of two of the Directors have changed, as follows:

Director	Appointed	Ordinary shares	Stock Options	Warrants
Andrea Cattaneo	24/09/2007	1,747,485	4,000,000	916,666
Luigi Regis Milano	24/09/2007	3,495,740	-	2,263,808

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZENITH ENERGY LTD

### Opinion

We have audited the consolidated financial statements of Zenith Energy Ltd and its subsidiaries (the Group), for the year ended 31 March 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at the end of the period and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Key audit matter

##### Acquisition of Azerbaijan Oil Properties (note 6)

In August 2016, the Group completed its acquisition of the Azerbaijan oil properties. The acquisition resulted in the Group recognising CAD \$1,065,346,000 of Development and Production (D&P) assets, CAD \$486,350,000 of associated liabilities and resulted in a bargain purchase of CAD \$578,995,000. This was the most significant transaction in the period and included significant judgements and assumptions in relation to the valuation of the assets acquired and liabilities assumed.

#### How our audit addressed the key audit matter

The audit procedures relating to the accounting treatment of the acquisition included :

- Review of the purchase agreement to ensure that the acquisition had legally occurred and ownership of the assets and liabilities resided with the Group;
- Verification of the mathematical accuracy of the acquisition calculations;
- Matching to source documentation;
- Confirmation that the correct accounting treatment has been applied and appropriate disclosures made; and

**Key audit matter**

**How our audit addressed the key audit matter**

- Auditing the fair valuation of the assets and liabilities assumed including challenging the reasonableness of the inputs into the models used and the expertise of the personnel preparing said models.

Carrying value of D&P assets within Property, Plant and Equipment (note 10)

The carrying value of D&P assets within property, plant and equipment was CAD \$1,072,933,000 of which CAD \$1,065,346,000 is in respect of the Group's Azeri operations.

As outlined within the "Critical accounting estimates and judgements section" the carrying value of property, plant and equipment by management is a critical accounting judgement and a key source of estimate uncertainty.

The continuing uncertain political and macroeconomic environment and OPEC decisions create additional uncertainty in relation to key inputs into future cash flow forecasts, which are used to project the recoverability of the Group's D&P assets.

We discussed the plans for the development of the various assets owned by the Group with management. We reviewed the underlying economic models used in the Competent Persons Report ("CPR") from which the valuation arise and challenged the key assumptions therein including:

- comparison of oil price assumptions to future prices;
- ensuring that the Competent Person had the relevant expertise to perform their work to the appropriate level of skill;
- challenging key inputs into the models including the discount rates used and benchmarking them where appropriate;
- performing sensitivity analysis of the various underlying assumptions; and
- assess carrying values by considering the range of valuations indicated by the differing scenarios.

**Other Information**

Management is responsible for other information. The other information comprises the Chairman's Statement, CEO Statement, Directors' Report, Governance Report, Directors' Remuneration Report and information in the Annual Report, other than the consolidated financial statements and our auditor's opinion thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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.

**Responsibilities of Management for the Consolidated Financial Statements**

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Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance on whether the consolidated 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e. gives a true and fair view).
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Joseph Archer.

*PKF Littlejohn LLP*

**PKF Littlejohn LLP**  
**Statutory auditor**  
**London, UK**  
Date: June 2017

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Continuing operations	Note	Financial year ended	
		31 March 2017	31 March 2016
		CAD \$'000	CAD \$'000
Revenue	27	4,424	791
<b>Cost of Sales</b>			
Production costs		(3,033)	(809)
Depletion and depreciation	10	(1,299)	(270)
<b>Gross Profit / (Loss)</b>		<b>92</b>	<b>(288)</b>
Administrative expenses	5	(4,155)	(2,757)
<b>Operating Loss</b>		<b>(4,063)</b>	<b>(3,045)</b>
Fair value movements	17	427	(303)
Gain - on business combination	6	578,995	-
Impairment	10	(2,985)	(5,025)
Net Interest expense	8	(633)	(847)
<b>Profit/(Loss) for the year before taxation</b>		<b>571,741</b>	<b>(9,220)</b>
Taxation	9	-	1,514
<b>Profit/(Loss) for the year from continuing operations</b>		<b>571,741</b>	<b>(7,706)</b>
(Loss)/Profit from discontinued operations, net of tax	7	(4,363)	31
<b>Profit/(Loss) for the year</b>		<b>567,378</b>	<b>(7,675)</b>
<b>Other Comprehensive Income</b>			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		1,595	(142)
<b>Total Comprehensive Income for the year attributable to owners of the parent</b>		<b>568,973</b>	<b>(7,817)</b>

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Earnings per share (CAD \$)	23		
Basic from profit / (loss) for the year		8.15	(0.23)
Diluted from profit / (loss) for the year		4.54	(0.23)
From continuing operations - basic		8.16	(0.23)
From continuing operations - diluted		4.55	(0.23)
From discontinued operations – basic and diluted		(0.01)	0.00

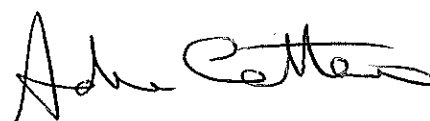
The notes on pages 31 to 75 form part of the Financial Statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	Financial year ended	
		31 March 2017	31 March 2016
		CAD \$'000	CAD \$'000
<b>Non-current assets</b>			
Property, plant and equipment	10	1,072,933	14,598
Other financial assets	11	401	207
		<b>1,073,334</b>	<b>14,805</b>
<b>Current Assets</b>			
Inventory	22	138	173
Trade and other receivables	25	1,700	1,173
Financial instruments at fair value through profit or loss	14	-	8
Cash and cash equivalents		3,924	138
		<b>5,762</b>	<b>1,492</b>
<b>TOTAL ASSETS</b>		<b>1,079,096</b>	<b>16,297</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders for the parent</b>			
Share capital	12	17,229	9,578
Share warrants and option reserve	13	1,877	1,510
Contributed surplus		2,332	2,232
Retained earnings / (deficit)		554,009	(15,598)
<b>Total equity</b>		<b>575,447</b>	<b>(2,278)</b>
<b>Non-current liabilities</b>			
Borrowings	15	4,527	674
Deferred consideration payable	6	484,034	-
Convertible loans	16	385	921
Decommissioning provision	19	7,980	7,897
Deferred tax liabilities	9	2,398	883
<b>Total non-current liabilities</b>		<b>499,324</b>	<b>10,375</b>
<b>Current Liabilities</b>			
Trade and other payables	25	2,912	3,266
Oil share agreement	18	-	1,027
Borrowings	15	973	3,210
Deferred consideration payable	6	440	-
Convertible loans	16	-	697
<b>Total current liabilities</b>		<b>4,325</b>	<b>8,200</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,079,096</b>	<b>16,297</b>

The notes on pages 31 to 75 form part of the Financial Statements

27 of June 2017



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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Share capital	Warrants and share option reserve	Contributed surplus	Retained earnings / (deficit)	Total
	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000
<b>Balance as at 31 March 2015</b>	<b>8,685</b>	<b>1,246</b>	<b>2,139</b>	<b>(7,781)</b>	<b>4,289</b>
Loss for the year	-	-	-	(7,675)	(7,675)
Other comprehensive income	-	-	-	(142)	(142)
Total comprehensive income	-	-	-	(7,817)	(7,817)
Share issue net of costs - conversion of loan notes	110	-	-	-	110
Share issue net of costs – debt settlement	67	-	-	-	67
Share issue net of costs - private placement	1,049	-	-	-	1,049
Value of warrants issued	(333)	357	-	-	24
Expired options	-	(93)	93	-	-
Total transactions with owners recognised directly in equity	893	264	93	-	1,250
<b>Balance as at 31 March 2016</b>	<b>9,578</b>	<b>1,510</b>	<b>2,232</b>	<b>(15,598)</b>	<b>(2,278)</b>
Profit for the year	-	-	-	567,378	567,378
Other comprehensive income	-	-	-	1,595	1,595
Total comprehensive income	-	-	-	568,973	568,973
Foreign exchange differences recognised in profit on disposal of subsidiary	-	-	-	634	634
Share issue net of costs - conversion of loan notes	876	-	-	-	876
Share issue net of costs – debt settlement	514	-	-	-	514
Share issue net of costs - private placement	6,338	-	-	-	6,338
Value of warrants issued	(77)	77	-	-	-
Issue of options	-	290	-	-	290
Option subscription monies received	-	-	100	-	100
Total transactions with owners recognised directly in equity	7,651	367	100	634	8,752
<b>Balance as at 31 March 2017</b>	<b>17,229</b>	<b>1,877</b>	<b>2,332</b>	<b>554,009</b>	<b>575,447</b>

Reserve	Description and purpose
Share capital	Amount subscribed for share capital
Share option reserve	Relates to increase in equity for services received – equity settled share bond
payment	transactions
Combined surplus	Expired share options
Retained deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

The notes on pages 31 to 75 form part of the Financial Statements

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**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	Financial year ended	
		31 March 17 CAD \$'000	31 March 16 CAD \$'000
<b>OPERATING ACTIVITIES</b>			
Profit/(Loss) for the year before taxation		571,741	(9,220)
Items not involving cash:			
Shares issued for services		280	67
Shares issued for accrued interest		234	-
Gain on sale of marketable securities		(4)	-
Fair value adjustment on marketable securities		-	28
Foreign exchange		1,780	(189)
Gain on conversion of convertible notes	17	(658)	(13)
Fair value adjustment on derivative liability	17	236	221
Depletion and depreciation		1,299	270
Gain on business combination	6	(578,995)	-
Impairment of property and equipment	10	2,985	5,025
Other expense		290	32
Finance expense		220	531
Change in working capital	21	(867)	1,352
<b>Net cash used in operating activities</b>		<b>(1,459)</b>	<b>(1,896)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds on sale of marketable securities		11	-
Cash on disposal of subsidiary		1	(398)
Purchases of property, plant and equipment	10	(413)	(178)
<b>Net cash used in investing activities</b>		<b>(401)</b>	<b>(576)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of notes payable		(105)	(4)
Proceeds from issue of shares, net of transaction costs	12	6,338	1,050
Proceeds from exercise of options		100	-
Proceeds from issue of bonds		-	518
Repayments of loans		(1,322)	-
Proceeds from loans		699	454
<b>Net cash generated from financing activities</b>		<b>5,710</b>	<b>2,018</b>
<b>Net cashflow from discontinued operations</b>	7	<b>(59)</b>	<b>(198)</b>
Net increase/(decrease) in cash		3,791	(652)
Foreign exchange effect on cash held in foreign currencies		(5)	(146)
<b>Cash at beginning of year</b>		<b>138</b>	<b>936</b>
<b>Cash at end of year</b>		<b>3,924</b>	<b>138</b>

**Notes to the consolidated and combined financial information**

**1. Corporate and Group information**

*Corporate Information*

The consolidated Financial Statements of Zenith Energy Ltd. and its subsidiaries (collectively, the "Group") has been prepared on the basis set out below.

Zenith Energy Ltd. ("Zenith" or the "Group") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The address of the Group's registered office is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Group is primarily involved in the exploration for, development of and production of oil and natural gas properties primarily in Argentina (until February 19, 2017), Azerbaijan and Italy. Zenith's website is [www.zenithenergy.ca](http://www.zenithenergy.ca).

The Group is involved in the exploration for, development of and production of petroleum, natural gas and electricity in Argentina (until February 19, 2017), Italy and Azerbaijan.

The Group is currently admitted in the Toronto Stock Exchange Venture under the symbol, "ZEE", and in the London Stock Exchange main market under the symbol "ZEN".

**2. Basis of preparation**

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The financial information has been prepared under the historical cost conversion except for financial instruments which are measured at fair value through profit or loss. The financial statements are presented in Canadian Dollars (CAD \$) and have been rounded to the nearest thousand (CAD \$'000) except where otherwise indicated.

The Board has reviewed the accounting policies set out below which have been applied consistently, and considers them to be the most appropriate to the Group's business activities.

*Presentation and functional currency*

The presentation currency of the Group is the Canadian dollar ("CAD \$").

Functional currency is the currency of the primary economic environment in which a company operates. The functional currency of the Group's subsidiaries are; Argentine Pesos ("ARS") for the Argentinian subsidiary (disposed of in February 2017), United States ("USD") dollars for the subsidiaries in the US (disposed of in February 2017) and British Virgin Islands (including Azerbaijan operations), Euros ("EUR") for the subsidiary in Italy and Swiss Francs ("CHF") for the subsidiary in Switzerland.

The functional currency is determined by the Directors by looking at a number of relevant factors including the currency in which Group entities usually generate and spend cash and in which business transactions are normally denominated.

All of the transactions that are not in the functional currency are treated as foreign and indicate currency transactions.

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The factors that have determined the adoption of the CAD \$ as presentation currency are:

- mainly affects the prices at which the goods or services are consolidated;
- Canada is the country whose regulations, market conditions and competitive forces mainly affect the pricing policy of the entity;
- influences the costs and expenses of the entity;
- the funds are usually generated in that currency; and
- the receipts from operating activities are retained in that currency.

*Going concern*

The Financial Statements have been prepared assuming the Group will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations.

The assessment has been made based on the Group's economic prospects which have been included in the financial budget for the years 2018-2019, and for managing working capital, in particular for the twelve months from the date of approval of the Financial Statements. Consideration has also been given in respect of the Group's development programs and ability to effectively increase production over its sites.

The nature of the business in which the Group operates creates a degree of uncertainty over commodity prices and in their forecasts the Directors have made their best estimates in relation thereto.

**New standards and interpretations not yet adopted**

**1. adoption of new and revised standards**

The following IFRSs or IFRIC interpretations were effective for the first time for the financial year beginning 1 April 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

standard / interpretation	
IFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
IAS 16 and IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 27 (amendments)	Equity method in separate financial statements
Annual Improvements to IFRSs: 2012-2014 Cycle	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting
IAS 1 (amendments)	Disclosure Initiative
IAS 12 (amendments)	Recognition of Deferred Tax Assets for Unrealised Losses



## 2. new standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

standard / interpretation	impact on initial application	effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 7 (amendments)	Disclosure Initiative	1 January 2017
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual Improvements to IFRSs: 2014-2016 Cycle	Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates	1 January 2017 (IFRS 12) / 1 January 2018 (IFRS 1 and IAS 28)
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, although they have yet to complete their impact assessment in relation to IFRS 9 and IFRS 15.

## 3. Significant accounting policies

### Consolidation

The following entities have been consolidated within the Group's financial statements:

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest</i>	<i>Principal activity</i>
Ingenieria Petrolera Patagonia Ltd. ("IPP") <i>Disposed of February 8, 2017</i>	Denver, Colorado, USA	100%	Sub-Holding
Canoel Italia S.r.l.	Genova, Italy	98.6%	Gas, Electricity and Condensate production

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<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest</i>	<i>Principal activity</i>
Petrolera Patagonia Corporation Inc. ("PPC") <i>Disposed of February 8, 2017</i>	Denver, Colorado, USA	100% owned subsidiary of IPP	Sub-Holding
PP Holding Inc. ("PPH") <i>Disposed of February 8, 2017</i>	Denver, Colorado, USA	100% owned subsidiary of IPP	Sub-Holding
Petrolera Patagonia S.r.l. <i>Disposed of February 8, 2017</i>	Argentina	95% owned subsidiary of PPC and 5% held by PPH	Oil production
Ingenieria Petrolera del Rio de la Plata S.r.l.	Argentina	100%	Oil Services
Zenith Aran Oil Company Limited	British Virgin Islands	100%	Oil production
Aran Oil Operating Company Limited	British Virgin Islands	80% owned subsidiary of Zenith Aran Oil Company Limited	Oil production
Altasol SA	Switzerland	100%	Trading

Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Adjustments are made to the results of subsidiaries to bring the account policies used by them, with those used by the Group.

As described in note 4 under significant judgements, the 20% external ownership interest in Aran Oil Operating Company Limited has not been treated as a non-controlling interest for accounting purposes.

*Business combinations*

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, a bargain purchase gain is recognised immediately in the consolidated statement of comprehensive income.

Transaction costs that are incurred in connection with a business combination other than those associated with the issue of debt or equity instruments are expensed as incurred.

Intercompany balances and transactions, are eliminated on consolidation, and any unrealised income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

#### **Foreign currency translation**

Foreign currency transactions are translated into the respective functional currencies of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and,
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's exchange difference on translating foreign operations on the statement of comprehensive income and are reported as a separate component of shareholders' equity. These differences are recognised in profit or loss in the period in which the operation is disposed.

#### **Cash**

Cash consist of cash deposits in bank accounts and cash in hand.

#### **Inventory**

Inventory consists of crude oil which is recorded at the lower of cost and net realisable value. The cost of producing crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the production cost, including royalties. Net realisable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any expected selling costs.

#### **Property, plant and equipment**

##### *Development and production expenditures*

Development and production ("D&P") assets include costs incurred in developing commercial reserves

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and bringing them into production, together with the exploration and evaluation (“E&E”) expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Items of property, plant and equipment, including D&P assets, are carried at cost less accumulated depreciation and accumulated impairment losses.

When significant parts of an item of property, plant and equipment, including D&P assets, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including D&P assets, are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognised in profit or loss.

*Subsequent costs*

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of property, plant and equipment and work-overs of property, plant and equipment are recognised only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognised in profit or loss when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognised. The costs of day-to-day servicing of an item of property and equipment are recognised in profit or loss as incurred.

*Depletion and depreciation*

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, as determined by an independent reserve engineer, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

*Office furniture and equipment*

Office furniture and equipment is depreciated over the estimated useful lives of the assets on a declining balance basis of rates ranging from 10% to 30%. The Group assesses the method of depreciation, useful lives and residual values annually.

*Impairment*

At the end of each reporting period, the Group reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into cash-generating units (“CGUs”) for the purpose of impairment testing.

If any such indication of impairment exists, the Group makes an estimate of its recoverable amount. A CGUs recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less costs to sell is determined as the amount that would be obtained from the sale of a CGU in an arm’s length transaction between knowledgeable and willing parties. The fair value less cost to sell of D&P assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal,

using assumptions that an independent market participant may take into account.

These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognised as an expense in profit or loss.

At the end of each subsequent reporting period, these impairments are assessed for indicators of reversal.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognised for the asset or CGU in prior periods.

A reversal of an impairment loss is recognised in profit or loss.

#### **Decommissioning provision**

The Group recognises a decommissioning obligation in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning provision is recorded with a corresponding increase in the carrying amount of the related cost centre.

Decommissioning provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognised as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalised within D&P assets. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

#### **Taxation**

Income tax expense is comprised of current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the asset and liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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 future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

### Financial instruments

#### Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

#### Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred.

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss, unless such instruments relate to investments in equity instruments that do not have a quoted market price in an active market and cannot be reliably measured in which case the investment is measured at cost. The Group has classified cash financial investments as fair value through profit or loss.

The carrying amount of cash approximates fair value due to its short term to maturity.

#### Other

Other non-derivative financial instruments, such as trade and other receivables, trade and other payables, oil share agreement and loans payable are measured at amortised cost using the effective interest method, less any impairment losses. The carrying amount of these financial instruments approximates fair value due to their short-term to maturity.

#### Deferred consideration liability

Deferred consideration comprises capital commitments acquired as part of the Azerbaijan business combination transaction. These liabilities are measured at the net present value of contracted future cash flows. Details of the value and timing of future cash flows from the deferred consideration liability are included at note 25 (b).

#### Compound financial instruments

Compound financial instruments include convertible notes which can be converted into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated

and recorded with a liability and equity component. The liability component is initially recognised as the fair value of the liability without the conversion feature, which is calculated using inputs that fall within level 1 of the fair value hierarchy of IFRS 13. The equity component is recognised as the difference between the fair value of the convertible debt and the fair value of the liability component.

Transaction costs are proportionately allocated between the components. Subsequently, the liability component is measured at amortised cost using the effective interest method and accretes up to the principal balance at maturity.

The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss is recognised. If the number of common shares to which the loan can be converted is not fixed then the loan is recorded as a liability with no debt / equity split.

### **Impairment of financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the consolidated statement comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the consolidated statement of comprehensive income.

### **Share capital**

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Group's option. Dividends on share capital classified as equity are recognised as distributions within equity. Non-equity share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the Consolidated Income Statement as a financial expense.

Incremental costs directly attributable to the issue of common shares are recognised as a deduction from equity.

### **Share-based payments**

The cost of providing share-based payments to employees is charged to the Statement of Comprehensive Income (or treated as a share issue cost) over the vesting period of the related share options or share allocations. The cost is based on the fair values of the options, and shares allocated determinate using the Black Scholes method. The values of the charge is adjusted to reflect expected and actual level of vesting. Charges are not adjusted for market related conditions that are not achieved. Where equity instruments are granted to persons other than Director or employees the consolidated statement of Comprehensive

Income is charged with the fair value of the related good or service received.

#### **Earnings per share**

The Group presents basic and diluted earnings per share data for its common shares. Basic earnings per share amounts are calculated by dividing the profit or loss attributable to common shareholders of the Group by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

#### **Revenue recognition**

Revenue represents the sale value of the Group's share of oil, gas, condensate and electricity and is recognised when the significant risks and rewards of ownership have passed to the buyer, which is typically at the point that the service and revenue can be reliably measured.

Revenues are recognised when title and risks pass to the purchaser or when services are rendered, and in particular:

- The oil sale is recognised when it is delivered through the pipeline;
- The gas sale is recognised when the production passes through the grid, after being measured by the fiscal measurer;
- The condensate sale is recognized when the product is delivered to the customer;
- The electricity sale is recognised when it is generated and passed through to the grid.

#### **Finance income and expense**

Finance income is recognised as it accrues in the consolidated statement of comprehensive income; using the effective interest method.

Finance expense is comprised of interest on debt, accretion of the decommissioning obligation, accretion of convertible notes, gains or losses on the fair value of the marketable securities, and other miscellaneous interest charges.

#### **Leases**

Payments made under operating leases are recognised as an expense in the consolidated statement of comprehensive income in accordance with the terms and conditions of the lease. Payments are charged on a straight-line basis over the term of the lease.

#### **4. Critical judgements and estimates**

##### **Critical Judgements**

Judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.



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*Property, plant and equipment*

Management reviews the Group's property, plant and equipment periodically for impairment indicators.

The determination of recoverable amounts in any resulting impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to prices that are based on forward curves and long-term corporate assumptions thereafter, discount rates, that are risked to reflect conditions specific to individual assets, future costs, both capital and operating that are based on management's judgement having regard to past experience and the known characteristics of the individual assets, reserves and future production, which are discussed further in note 10.

The Group's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

*Aran Oil Operating Company Limited*

The Group holds an 80% interest in Aran Oil Operating Company Limited ("Aran Oil"), an entity that was created as a vehicle to facilitate the Rehabilitation, Exploration, Development and Production Sharing Agreement ("REDPSA" – explained further in note 6) in Azerbaijan. The Group has determined that the 20% interest owned by a third party does not represent a non-controlling interest in accordance with IFRS.

Under the REDPSA, the group has a legal obligation to pay 20% of profits after certain cost recoveries to SOA. Consequently after legal interpretation management have made the judgement that SOA do not hold an accounting minority interest in Aran Oil and this has been treated as a wholly owned subsidiary.

*Deferred tax liability recognition*

Deferred tax liabilities are recognised for all taxable temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Details of the Group's deferred tax liabilities are disclosed in the note 9.

*Business combinations*

When the Group acquires a business, it assesses the fair value of the assets acquired and liabilities assumed by reference to the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Petroleum reserves and resources used in the assessment of fair values on acquisition refer to independent reports. Where resources are significant they are risked on the basis of their inherent uncertainty.

Discounted cash flow models are used to reflect the revenues and expenditures related to the extraction of reserves from business combinations. Comparable resource multiples achieved in recent market activity are used for resources. Other assets and liabilities are valued by reference to market-based observations or independent valuations where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

*Critical Accounting Estimates*

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related achieved amounts. The estimates and assumptions that have significant risk of causing material adjustments and assumptions to the carrying amounts of assets and liabilities are disclosed below.

During the year ended March 31, 2017 the Group recognised a value of assets and associated liabilities for its Azerbaijan Assets acquired after the combination of the business, including the payments due in respect of the acquisition relating to royalties, work and exploration programs and taxation. The valuations of the assets and of the liabilities have been based on the Net Present Value ("NPV") of future cash flows included in the Competent Persons Report prepared on behalf of the Group by Chapman Petroleum Engineering Ltd. ("Chapman" – "Original CPR"), but include a range of estimates which include:

- The discount rate to be applied for the purposes of deriving a recoverable value;
- Future revenues and estimated development and exploration costs;
- Growth rates;
- The expected oil price; and
- Costs of production

Any changes to the estimates may result in a material impact to the carrying value of both the assets and liabilities, arising in respect of the acquisition.

The Development and Production assets in Azerbaijan are valued using discount factors of 15% and 10% respectively. If each of the discount rates were to be increased by 5 percentage points, the impact on net assets would be approximately CAD \$414 million (decrease). Conversely, if the discount rates were each reduced by 5 percentage points, the impact on net assets would be approximately CAD \$834 million (increase). In addition, movements in other inputs to the calculation, such as the timing of future cashflows and commodity prices, also have a significant impact on the value of the underlying assets.

#### *Proved and probable reserves and contingent resources*

The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations. Contingent resources affect the valuation of exploration and exploration assets acquired in business combinations and the estimation of the recoverable value of those assets in impairment tests.

Proved and probable reserves and contingent resources are estimated using standard recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

#### *Decommissioning costs*

Most of the decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations.

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the Statement of Financial Position date. Provision is made for the estimated cost at the Statement of Financial Position date, using a discounted cash flow methodology and a risk free rate of return. Details of the Group's decommissioning costs are disclosed in note 19.

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5. Administrative Expenses

General and administrative expenses for the two years ended 31 March are composed of the following:

	Year ended 31 March	
	2017 CAD \$'000	2016 CAD \$'000
<b>Professional fees</b>	<b>1,884</b>	<b>1,070</b>
<i>External Audit Remuneration fees</i>	84	114
<i>Legal fees</i>	311	161
<i>Accountancy fee</i>	147	103
<i>Consultancy</i>	814	452
<i>Other fees</i>	528	240
<b>Office</b>	<b>291</b>	<b>394</b>
<i>Office rental</i>	116	113
<i>Other expenses</i>	175	281
<b>Administrative</b>	<b>319</b>	<b>470</b>
<i>Administrative services</i>	130	262
<i>Other expenses</i>	189	208
<b>Salaries and benefits</b>	<b>864</b>	<b>341</b>
<i>Consulting fees</i>	173	198
<i>Salaries</i>	324	143
<i>Other expenses</i>	367	-
<b>Travel</b>	<b>945</b>	<b>413</b>
<b>Other expenses</b>	<b>3</b>	<b>10</b>
<b>Foreign exchange</b>	<b>(151)</b>	<b>59</b>
<b>TOTAL</b>	<b>4,155</b>	<b>2,757</b>

6. Business combinations

a) Azerbaijan

On January 26, 2016 the Group registered a branch of Zenith Aran Oil Company Ltd. ("Zenith Aran"), a wholly owned subsidiary of the Group, in Baku, Azerbaijan, to have an operating entity in Azerbaijan for the ownership and management of the Azerbaijan oil properties.

Zenith Aran was incorporated in the British Virgin Islands under the BVI Business Companies Act, 2004, on the 27th of November 2015.

On March 16, 2016, the Group's wholly-owned subsidiary, Zenith Aran, entered into a Rehabilitation, Exploration, Development and Production Sharing Agreement ("REDPSA") with SOCAR (State Oil Company of Azerbaijan Republic) and SOA (Socar Oil Affiliate). The REDPSA covers 642 square kilometres which include the active Muradkhanli, Jafarli and Zardab oil fields located in the Lower Kura Region, about 300 kilometres inland from the city of Baku, in Azerbaijan (the "Azerbaijani Operations"). Pursuant to the terms of the REDPSA, the Group and SOA have the exclusive right to conduct petroleum operations from the Azerbaijani Operations, through a newly incorporated operating company, Aran Oil Operating Company Limited (the "Aran Oil"). Aran Oil, in which Zenith has an 80% interest, is the operator of the concession, with the remaining 20% interest being held by SOA. Voting rights in Aran

Oil are consistent with each party's proportionate interest.

The Directors of the Group have determined that the 20% interest of SOA in Aran Oil does not represent a non-controlling interest. This is a result of the structure of the REDPSA, whereby the financial entitlements of SOA are deemed to be legal obligations of the Group, and not a non-controlling interest in Aran Oil. The key factors considered in determining the appropriate treatment of SOA's 20% interest in Aran Oil included, but were not limited to:

- The allocation of voting rights and the ability of SOA to influence the decision making process;
- Legal obligations of each party under the REDPSA; and
- Legal structure of Aran Oil as a vehicle for executing the terms of the REDPSA.

On June 20, 2016, the President of the Republic of Azerbaijan signed the REDPSA into law, following approval by Parliament on June 14, 2016. The delivery of the capital assets previously used in respect of the petroleum operations at the Azerbaijani Operations, from the previous operating company to Aran Oil, physically completed in June 2016, was formally completed on August 11, 2016 with the necessary signatures on related documents.

The transfer of operational control did not involve any interruption of petroleum production operations at the Azerbaijani Operations.

As a part of the handover, an inventory of equipment and material was prepared and the volumes of oil in the pipelines and tanks were recorded. Any revenues related to the existing oil as at the date of handover were allocated to SOCAR. At the time of the formal finalisation of the transaction the production in Azerbaijan was about 275 barrels per day of oil.

The handover involved the transfer of certain individuals employed by the current operator of the Azerbaijani Operations to Aran Oil. In accordance with the laws of Azerbaijan, the transfer process involved the relevant employees being dismissed by their previous employer (the outgoing operator of the Azerbaijani Operations) and entering into new employment contracts with Aran Oil. Any payments to the relevant employees arising as a result of their dismissal by the previous operating company were for the account of the previous operating company. In accordance with the laws of Azerbaijan, the relevant employees have been employed by Aran Oil with effect from the Effective Date. The form of employment agreement follows the template prescribed by the Azerbaijani labour code.

The capital assets which transferred to Aran Oil as part of the handover include production equipment, vehicles, wells, pumps, storage facilities, tools, generators, compressors, pipelines, offices, warehouses, buildings, rigs, yards, roads, infrastructure, radios, tubular goods, supplies, materials and facilities. The Group appointed a consultant in Azerbaijan to review and report on the availability and the state of the assets prior to handover.

The term of the Contract Exploration Area portion of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's development program. The term of each Area may be extended by an additional five years at SOCAR's discretion.

The fair values of the assets acquired, the liabilities and contingent liabilities assumed are based on the Net Present Value ("NPV") of future cash flows included in the Competent Persons Report prepared on behalf of the Group by Chapman Petroleum Engineering Ltd. ("Chapman") as of August 31, 2016.

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There was an effective CAD \$nil acquisition price applied to the calculation of the gain on bargain purchase. The acquisition has been accounted for as a business combination using the acquisition method of accounting and resulted in a bargain purchase as follows:

**Fair value of net assets acquired CAD\$'000**

Development and production assets	1,065,346
Compensatory Oil*	(5,963)
Capital Costs*	(478,598)
Decommissioning Obligations*	<u>(1,790)</u>
<b>Gain on business combination</b>	<b>578,995</b>
Taxation	<u>-</u>
<b>NPV of the assets</b>	<b>578,995</b>

\* Amounts required to be paid under the terms of the REDPSA and therefore in accordance with FRS3 ("Business Combinations") form part of the acquisition amount.

The activity of the newly-acquired Azerbaijan subsidiaries are included within note 27 'Operating segments'. No deferred income tax liability has been reflected in the business combination transaction as a result of the Group being exempt from paying income tax under the terms of the REDPSA.

**Development and production (D&P) assets**

The estimated value of the D&P assets acquired was determined using both estimates and an independent reserve evaluation based on oil and gas reserves discounted at 10%.

**Decommissioning provisions**

The fair value of decommissioning obligations assumed was determined using the timing and estimated costs associated with the abandonment, restoration, and reclamation of the wells and facilities acquired, discounted at a credit adjusted rate.

On August 12, 2016, the day immediately following the acquisition date, the decommissioning obligation assumed was remeasured using a long term risk free rate based on the expected timing of cash flows, in accordance with IAS 37 ("Provisions, Contingent Liabilities and Contingent Assets"). The result was a CAD \$1,790k increase in the decommissioning obligation associated with the acquired assets and the net result of the acquisition and recognition of decommissioning liability recognition being a gain of CAD \$578,995k measurement for the year ended 31 March 2017.

**Compensatory oil**

The Group have an obligation, under the terms of the contract, to:

1. within one year following the Effective Date, deliver at no charge to SOCAR 5% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter; and
2. commencing on the first anniversary of the Effective Date, start delivering, at no charge to SOCAR, 15% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter, until the amount delivered is the equivalent of 45,000 tons of "compensatory" crude oil to SOCAR.

The amount, stated as a liability, reflects this production obligation that has to be delivered to Socar, valued at the estimated production price of US\$20 per barrel.

#### **Capital Costs**

At the time of the formal finalisation of the transaction the production in Azerbaijan was about 275 barrels per day of oil, although they have produced much larger quantities previously (Source: SOCAR). Gas is also produced, but in low quantities and is used at the sites.

The Group, which is free to sell/export oil without restrictions, sells its oil through the Marketing and Operations Department of SOCAR ("SOCARMO"). A commission of 1% of total sales is payable to SOCARMO.

Between 2017 and 2020, the Group plans to workover a total of 44 existing wells in Azerbaijan which are currently inactive or produce at low rates (< 5 STB/d) to bring rates up to 10 to 15 STB/d per well using improved technology, non-damaging fluids and optimized treatments. It is estimated that 10 wells will be worked over in 2017, 11 wells in 2018, 15 wells in 2019 and 8 wells in 2020.

This program has commenced using the existing workover rig in the field and the Group intends to purchase an additional modern workover rig to optimize the workover of the wells, within the next four years.

In addition to the marginal producing wells, five non-producing wells in the Maykop zone in the Zardab field in Azerbaijan are expected to be worked over in 2019 and to be returned to production once the existing wellbore and sand production issues have been resolved.

The Group intends to acquire one modern drilling rig capable of drilling 4,500m to carry out a fifteen year drilling program. It is anticipated that five new wells will be drilled in 2019 and ten wells in each year thereafter until the anticipated drilling program is completed in 2033.

During the first four years of the REDPSA it is estimated that US\$1,500k will be spent upgrading the gathering system and central facilities in Azerbaijan to improve safety, efficiency and handle higher production rates. During the same period, 39 active wells currently producing at marginal rates will be worked over at an estimated cost ranging from \$25k to \$32k per well, using the existing workover rig.

It is anticipated that in 2019 five shut-in wells completed in the Maykop formation will be worked over to control sand production, at an estimated cost of US\$150k per well, and returning to an increase of production at a total of 200STB/d.

On 24 January 2017 the Group announced the signing of a well workover contract and engagement of highly experienced local drilling company to initiate and execute the workover of first two wells in the program (M-195 and M-45).

It is envisaged that development drilling will commence in 2019 and continue until 2033. It has been estimated that each well with proved reserves will cost approximately US\$4,300k. This cost will include the direct cost of materials, fuel, salaries, etc. to drill the well and an allocation for the purchase of one drilling rig, well completion and tie-in.

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Proved reserves are those reserves that can be estimated by the competent person with a high degree of certainty to be recoverable. The estimate of the reserves are related to a given date, based on analysis of drilling, geological, geophysical and engineering data; the use of established technology, and; specified economic conditions, which are generally accepted and being reasonable, and shall be disclosed.

In addition to the costs anticipated for the wells with proved reserve, wells in the proved plus probable category have an additional allocation for the purchase and maintenance of a second drilling rig and expansion and modernization of the field facilities.

In all 145 wells are expected to be drilled over 16 years, of which 58 of these are anticipated to be horizontal wells.

<b>DEFERRED CONSIDERATION PAYABLE</b>	<b>March 31, 2017</b>	<b>March 31, 2016</b>
	<b>CAD\$'000</b>	<b>CAD\$'000</b>
<b>Compensatory Oil</b>		
Current portion	138	-
Non-Current portion	5,739	-
<b>Capital costs</b>		
Current portion	302	-
Non-Current portion	478,295	-
<b>As of 31 March</b>	<b>484,474</b>	<b>-</b>
Deferred Consideration payable current	440	-
Deferred Consideration payable non-current	484,034	-
<b>Total</b>	<b>484,474</b>	<b>-</b>

The deferred consideration liability has been measured at the present value of contracted future cash flows. The value and timing of contracted future cash flows has been included in note 25 (b).

**b) Switzerland**

On March 30, 2017 Zenith acquired a Swiss company, Altasol SA, paying an amount of CHF 100 (CAD \$134).

The acquired entity is a non-operating company, which was purchased with the prospective of developing an oil trading subsidiary of Zenith Energy Ltd.

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The below table shows the assets and liabilities acquired at the date of purchase.

**Financial Statements as of 30 March 2017**

<b>ASSETS</b>	<b>CAD \$'000</b>
Current Assets	
Cash and cash equivalents	2,343
<b>TOTAL ASSETS</b>	<u>2,343</u>
<b>LIABILITIES</b>	
Short Term Loans	66
Long Term Loans	2,277
<b>TOTAL LIABILITIES</b>	<u>2,343</u>
Equity	-
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>2,343</u>

**7. Disposal of properties in Argentina**

**General description**

On February 20, 2017 the Group announced the sale of its operations in Argentina to a group of local energy investors.

Due to a series of circumstances beyond the Group's control, caused by the collapse of a major storage tank owned by the Argentina's national oil company production, Zenith's Argentine operations were suspended and its oil production could no longer be transported through YPF pipelines.

To date, the issues affecting the transportation of oil have not been fully resolved and a persisting uncertainty on the recommencement of operations led the Group to reconsider its operational involvement in Argentina.

The sale of the Group's Argentinian subsidiary was fixed at a nominal sum in recognition of the costs the new owner is expected to incur to return these fields to production. In addition, the Group will no longer be liable for any environmental responsibilities or future well abandonment obligations for the Don Alberto and Don Ernesto fields.

Termination of activities in Argentina will enable Zenith's management to more effectively direct its focus on its Italian operations and especially towards Azerbaijan, where the Group's most important assets are located, and where a systematic program of field rehabilitation has begun. This re-



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alignment reflects the Board's aversion to operational overstretch and the Group's preference for a strong, concentrated focus towards the achievement of its production objectives in Azerbaijan.

**(i) Results of discontinued operations**

	2017 CAD \$'000	2016 CAD \$'000
Revenue net of royalties	71	1,168
Operating expenses	(582)	(941)
Transportation expenses	(2)	(57)
General and administrative expenses	(265)	(400)
Depreciation and impairment expenses	(13)	(61)
Impairment of inventory	-	(228)
Gain on sale of marketable securities	-	20
Foreign exchange	107	776
Finance expense	(106)	(246)
Loss on disposal of discontinued operations	(3,573)	-
<b>(Loss)/profit for the year</b>	<b>(4,363)</b>	<b>31</b>

**Earnings per share from discontinued operations**

	2017	2016
Basic and diluted profit / (loss) per share	\$(0.01)	\$0.00

**Statement of cash flows**

	2017 \$'000	2016 \$'000
Operating activities	(390)	(386)
Investing activities	-	(11)
Financing activities	331	198
<b>Net cash from discontinued operations</b>	<b>(59)</b>	<b>(199)</b>

**(ii) Loss on disposal of subsidiaries**

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

	2017 \$'000
Cash consideration received	1
Total consideration received	1
Overdraft disposed of	3

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Net inflow received on disposal of discontinued operations	4
<i>Net assets disposed of (other than cash)</i>	-
Investment in subsidiaries	(1,864)
Loans to subsidiaries net of impairment	(402)
Other assets and liabilities	(1,307)
Pre-tax loss on disposal of discontinued operations	(3,573)
Related tax expense	-
Loss on disposal of discontinued operations	(3,573)

**8. Finance expense**

	2017 CAD \$'000	2016 CAD \$'000
Interest on borrowings	472	556
Accretion of decommissioning obligation	98	100
Accretion of convertible notes	39	187
Accretion of bonds	24	4
<b>Net finance expense from continuing operations</b>	<b>633</b>	<b>847</b>

**9. Taxation**

The difference between income tax for the year and expected income taxes based on the statutory tax rate arises as follows:

	2017 CAD \$'000	2016 CAD \$'000
Current tax	-	-
Deferred tax	-	(1,514)
<b>Total tax (credit)/ charge for the year</b>	<b>-</b>	<b>(1,514)</b>

	2017 CAD \$'000	2016 CAD \$'000
Profit / (loss) before taxation	571,741	(9,220)
Expected tax at 27%	154,370	(2,489)
Non-assessable income	(156,328)	-
Differences on tax rates attributable to other jurisdictions	246	-
Non-deductible expenses	16	41
Changes in enacted rates and other	-	(387)
Tax losses carried forward	1,696	-
Changes in unrecognised deferred tax assets	-	1,321
<b>Tax (credit) / charge</b>	<b>-</b>	<b>(1,514)</b>

The tax (credit) charge for the year ended 31 March 2017 comprised CAD \$Nil (2016 – CAD \$Nil) of current tax expense and CAD \$Nil deferred tax reduction (2016 – CAD \$1,514k deferred tax reduction).

The effective tax rate implicit in the above is 23.6%.

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Recognised deferred tax liabilities are attributable to the following:

	2017 CAD \$'000	2016 CAD \$'000
Property, plant and equipment	(2,554)	(2,554)
Decommissioning obligation	47	1,562
Non-capital loss carryforwards	109	109
<b>Recognised deferred tax liabilities</b>	<b>(2,398)</b>	<b>(883)</b>

Deferred tax assets have not been recognised in respect of the following temporary differences as it is not considered probable that sufficient taxable income will allow the deferred tax assets to be utilised and recovered:

	2017 CAD \$'000	2016 CAD \$'000
Non-capital loss carryforwards	18,513	4,157
Share issuance costs	382	39
Other	3,409	337
<b>Unrecognised deferred tax assets</b>	<b>22,304</b>	<b>4,533</b>

As at 31 March 2017, the Group has accumulated non-capital losses in Canada totaling CAD \$18,198k (2016 - CAD \$15,200k) which expire in varying amounts between 2028 and 2037 and CAD \$400k (2016 - CAD \$400k) of non-capital losses in Italy.

**10. Property, plant and equipment**

	D&P Assets CAD \$'000
<b>Carrying amount at 31 March 2015</b>	<b>16,693</b>
Additions	313
Acquired in business combination	709
Disposals	-
Depreciation	(270)
Impairment	(5,025)
Decommissioning obligation	2,069
Foreign exchange differences	109
<b>Carrying amount at 31 March 2016</b>	<b>14,598</b>
Additions	413
Acquired in business combination (note 6)	1,065,346
Disposals	(3,542)
Depreciation	(1,299)
Impairment	(2,985)
Decommissioning obligation	617
Compensatory oil delivered	(87)
Foreign exchange differences	(128)
<b>Carrying amount at 31 March 2017</b>	<b>1,072,933</b>

The depletion calculation for the year ended 31 March 2017 included estimated future development costs of CAD \$2.7 million for proved and probable reserves (2016 - CAD \$2.7 million).

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The assets acquired in the business combination were acquired in conjunction with capital commitments represented by the deferred consideration payable. The details of these capital commitments are included within the 'Capital costs' section of note 6.

As at 31 March 2017 and 2016, the Group identified certain business risks related to its Italian CGU, such as a decrease in forecast prices from those in prior years and the deferral of future capital investment, as indicators of impairment. As a result, the Group performed impairment tests at 31 March 2017 and 2016 and estimated the recoverable amount of the above CGUs based on the higher of the fair value less costs to sell and its value in use.

The estimated fair value less costs to sell of the Italian CGU was based on 15% (2016 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at 31 March 2017 and 2016. The estimated recoverable amount of the Italian CGU at 31 March 2017 was lower than the carrying amount resulting in the recognition of CAD \$2,985,000 of impairment in the 2017 consolidated statement of comprehensive income. The estimated recoverable amount of the Italian CGU at 31 March 2016 was lower than the 31 March 2015 carrying amount resulting in the recognition of CAD \$5,025,000 of impairment in the 2016 consolidated statement of comprehensive income.

The following prices were used in the 31 March 2017 impairment test of the Italian CGUs:

Year	Average USD gas price per mcf CAD \$	Average USD NGL price per bbl CAD \$
2016 – remainder	2.99	51.63
2017	2.62	66.59
2018	2.65	73.06
2019	2.72	75.78
2020	2.79	78.38
2021	2.85	80.72
2022 and thereafter	1% escalation	1% escalation

#### **11. Other financial assets**

Upon the change of ownership of assets acquired in Italy during 2016, the Group obtained an insurance policy for its Italian oil and gas operations. The policy has a five year term for which the Group paid the total premium of EUR 567k (CAD \$868k), of which CAD \$nil (2016 – CAD \$180k) has been recognised as an expense. The outstanding balance of CAD \$391k (2016 – CAD \$207k) is included in long-term assets. During the year 2016 the Group received the news that the insurance company was in default. The Directors decided to not expense the monthly installment on the prepaid insurance, pending reimbursement promised by the State of Romania, where the insurance company was based.

#### **12. Share Capital**

Zenith is authorised to issue an unlimited number of Common Shares, of which 115,577,230 were issued as at 31 March 2016 (2016 - 43,594,406). Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of these financial statements.

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The Group's ordinary shares are fully paid with nil par value.

Issued

	Number of common shares	Amount CAD \$'000
<b>Balance – 31 March 2015</b>	<b>29,292,081</b>	<b>8,687</b>
Conversion of convertible notes (i)	882,640	110
Non-brokered unit private placement (ii)	2,700,000	270
Fair value of warrants (ii)	-	(46)
Non-brokered unit private placement (iii)	4,214,125	337
Fair value of warrants (iii)	-	(107)
Non-brokered unit private placement (iv)	5,780,688	463
Fair value of warrants (iv)	-	(181)
Settlement of debt (v)	724,872	67
Share issue costs (v)	-	(22)
<b>Balance – 31 March 2016</b>	<b>43,594,406</b>	<b>9,578</b>
Non-brokered unit private placement (vi)	6,674,775	534
Finder's fee	-	(27)
Non-brokered unit private placement (vii)	3,892,875	311
Finder's fee	-	(15)
Conversion of convertible notes (viii)	2,730,000	300
Settlement of debt (viii)	312,500	31
Non-brokered unit private placement (ix)	1,519,250	122
Finder's fee	-	(6)
Non-brokered unit private placement (x)	1,906,050	191
Finder's fee	-	(10)
Settlement of debt (xi)	1,049,235	88
Non-brokered unit private placement (xii)	2,745,062	329
Finder's fee	-	(4)
Settlement of debt (xiii)	150,000	12
Admission LSE placement (xiv)	33,322,143	3,783
Fair value of warrants issued	-	(77)
Finder's fee	-	(200)
Settlement of debt (xv)	668,571	78
Non-brokered unit private placement (xvi)	9,000,000	1,399
Finder's fee	-	(70)
Conversion of convertible notes (xvii)	3,700,000	407
Settlement of debt (xviii)	505,263	72
Conversion of convertible notes (xix)	1,637,100	164
Conversion of convertible notes (xx)	2,170,000	239
<b>Balance – 31 March 2017</b>	<b>115,577,230</b>	<b>17,229</b>

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- i) On August 28, 2015, the Group converted CAD \$110k principal amount of convertible notes into 882,640 common shares at a conversion price of CAD \$0.125 per share.
- ii) In September 2015, the Group completed the private placement of 2,700,000 units at CAD \$0.10 per unit for gross proceeds of CAD \$270k. Each unit is comprised of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at CAD \$0.25 per share for a period of 36 months from the date of issuance. The grant date fair value of the warrants was estimated at CAD \$46k using the Black-Scholes pricing mode.
- iii) In November and December 2015, the Group completed a non-brokered private placement for an aggregate 4,214,125 units at CAD \$0.08 per unit for gross proceeds of CAD \$337k. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at CAD \$0.25 per share for a period of 36 months from the date of issuance. The grant date fair value of the warrants was estimated at CAD \$107k using the Black-Scholes pricing model.
- iv) In January to March 2016, the Group completed a non-brokered private placement for an aggregate 5,780,688 units at CAD \$0.08 per unit for gross proceeds of CAD \$463k. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at \$0.15 per share for a period of 24 months from the date of issuance. The grant date fair value of the warrants was estimated at CAD \$181k using the Black-Scholes pricing model. In connection with the private placement, the Group paid finder's fees of CAD \$20k and issued a total of 82,733 finder's warrants exercisable at CAD \$0.15 for a period of 24 months from the date of issuance. The fair value of finder's warrants was estimated at CAD \$2k using the Black-Scholes pricing model.
- v) In March 2016, the Group issued 724,872 common shares at an average price of CAD \$0.092 per share for the settlement of CAD \$67k of debt owed to certain vendors.
- vi) On April 11, 2016 the Group completed the private placement of 6,674,775 shares at CAD\$0.08 per unit for gross proceeds of CAD\$534k. Of the 6,674,775 shares, 5,000,000 shares were issued forming part of a unit comprising one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD\$0.15 per common share for a period of 24 months from the date of issuance. The remaining 1,674,775 shares were not issued with accompanying warrants. The Group also paid aggregate finders' fees of CAD\$27k.
- vii) On April 21, 2016, the Group completed the private placement of 3,892,875 shares at CAD\$0.08 per unit for gross proceeds of CAD\$311k. Each unit is comprised of one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD\$0.15 per common share for a period of 24 months from the date of issuance. The Group also paid aggregate finders' fees of CAD\$15k and issued 179,712 warrants to certain arm's-length parties in the connection with the Private Placement.
- viii) On June 9, 2016, the Group issued 2,730,000 shares at a deemed price of \$0.11 per share in partial conversion of convertible notes \$300k (Note 10), and 312,500 shares at a price of

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\$0.10 per share creditors of the Corporation to settle debts owing by the Group totaling \$31k.

- ix) On June 16, 2016 the Group has closed a non-brokered private placement of 1,519,250 shares of the Group at a price of \$0.08 per Unit for aggregate gross proceeds of \$122k. Each unit is comprised of one common share and one common share purchase warrant. Each Warrant will be exercisable for one Common Share at a price of \$0.15 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD\$6k.
- x) On 10 October 2016 the Group closed a non-brokered private placement of 1,906,050 Common Shares at a price of CAD \$0.10 per unit for aggregate gross proceeds of CAD \$191k. Each unit is comprised of one Common Share and one common share purchase warrant. Each common share purchase warrant will be exercisable for one Common Share at a price of CAD \$0.20 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD\$10k.
- xi) On 19 October 2016, the Group issued 724,235 Common Shares at a deemed price of CAD \$0.085 per Common Share to certain debtholders and creditors of the Group to settle debts owing by the Group, representing an aggregate of CAD \$62k. In addition the Group issued 325,000 Common Shares at a deemed price of \$0.08 per share, to a service provider to settle debts owing by the Group, representing an aggregate of CAD \$26k.
- xii) On November 7, 2016, the Group closed a non-brokered private placement of 2,745,062 Common Shares at a price of CAD \$0.12 per unit for aggregate gross proceeds of CAD \$329k. Insiders of the Group subscribed for an aggregate of 2,195,475 units for aggregate subscription proceeds of CAD \$263k. Each common share purchase warrant will be exercisable for one Common Share at a price of CAD \$0.20 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD\$4k.
- xiii) On November 30, 2016, the Group issued 150,000 Common Shares to certain debtholders and creditors of the Group (based on a price of CAD\$ \$0.08 per share Common Share) in settlement of a debt of GBP £7k (inclusive of accrued interest) owed by the Group in respect of services.
- xiv) On January 5, 2017 - The Group announced that the Prospectus dated January 5, 2017 has been approved by the UK Listing Authority (the "Prospectus"). The Prospectus relates to admission of the Group's Common Shares to the standard listing segment of the Official List and to trading on the London Stock Exchange's Main Market ("Admission"). Admission and commencement of dealings in the Group's Common Shares did occur on 11 January 2017.

In connection with Admission, the Group successfully placed 33,322,143 Common Shares (the "UK Placing"). Following its book-building process, in which Common Shares were placed at £0.07 (CAD\$0.11) per Common Share, on completion of the UK Placing the gross proceeds available to the Group were approximately £2,333k (CAD\$3,783k) and the net proceeds were approximately £2,016k (CAD\$3,305k). The Group paid finder's fees of GBP 114k (\$200k) and issued 1,114,286 broker warrants exercisable for 24 months from closing at a price of GBP 0.07 per common share to certain arm's-length parties under the private placement undertaken as part of the dual listing on the London Stock Exchange on 11 January 2017.

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- xv) In January 2017 the Group issued 668,571 shares, at a deemed price of £0.07 per share, for the settlement of a debt for services of a senior manager of the Company, for an amount of £47k (\$78).
  
- xvi) In January 2017 the Group entered into an agreement to proceed with a brokered private placement (the "Private Placement") to raise gross proceeds of GBP 855k (approximately CAD\$ 1,399k) through the issue of nine million (9,000,000) new common shares of the Group at a price of GBP 0.095 (approximately CAD\$ 0.1565) per share. In addition to the New Common Shares, under the Private Placement each subscriber received one warrant (the "Warrant") for every New Common Share purchased. Each Warrant shall entitle the Warrant holder to subscribe for new Common Shares in the Group at a price of GBP 0.15 per common share (approximately CAD\$ 0.247), exercisable at any time until 1 February 2019. The Company also paid aggregate finders' fees of CAD\$70k.
  
- xvii) On January 30, 2017 the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 3,700,000 Common Shares of Zenith with an aggregate value of CDN\$ 407k (approximately £247k). The terms of this conversion were comprehensively outlined in the Prospectus issued by the Group on January 2017, stating that the conversion mechanism requires a conversion price of CDN\$ 0.11 (£0.0677).
  
- xviii) On March 14, 2017 the Group issued 505,263 common shares in the capital of the Corporation at a deemed price of \$0.1425 per Common Share, to settle certain debts owing by the Corporation. The Group further confirms that the debts have been fully paid, with the balance being settled in cash. The Common Shares issued pursuant to the Share Settlement are subject to a four-month hold period.
  
- xix) On March 21, 2017 Gunsynd PLC elected to fully convert its GBP£100k principal amount unsecured convertible note into common shares of the Group at the conversion price of CAD\$0.10, as outlined in the Group's prospectus published on January 2017. Upon conversion of the Convertible Note 1,637,100 Common Shares will be issued to Gunsynd. This fully extinguishes Zenith's GBP convertible debt.
  
- xx) On March 21, 2017 the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 2,170,000 Common Shares of Zenith with an aggregate value of CDN\$ 239k (approximately £143k). The terms of this conversion were comprehensively outlined in the Prospectus issued by the Group on January 2017, stating that the conversion mechanism requires a conversion price of CDN\$ 0.11 (£0.06588).



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13. Warrants and Options

	Number of options	Number of warrants	Weighted average exercise price	Amount \$'000	CAD
<b>Balance – 31 March 2015</b>	-	<b>17,228,852</b>	<b>0.25</b>	<b>1,246</b>	
Bond Units	-	1,740,000	0.25	20	
Bond Units Finder's fee	-	67,500	0.25	2	
Unit private placements	-	5,564,125	0.25	152	
Unit private placements Finder's fees	-	5,780,688	0.15	181	
Expired	-	(825,000)	(0.25)	(93)	
<b>Balance – 31 March 2016</b>	-	<b>29,638,898</b>	<b>0.23</b>	<b>1,510</b>	
Unit private placements	-	12,591,612	0.15	-	
Unit private placements	-	4,651,112	0.20	-	
Unit private placements	-	1,114,286	0.11	77	
Unit private placements	-	9,000,000	0.24	-	
Options issued	6,000,000	-	0.10	290	
Options exercised	(1,000,000)	-	0.10	-	
<b>Balance – 31 March 2017</b>	<b>5,000,000</b>	<b>56,995,908</b>	<b>0.21</b>	<b>1,877</b>	

As at 31 March 2017, the Group had 56,995,908 warrants outstanding (relating to 56,995,908 shares) and exercisable at a weighted average exercise price of \$0.21 per share with a weighted average life remaining of 1.80 years.

Broker warrants issued during the year were valued using the Black Scholes model. The inputs to this calculation were; stock price of CAD \$0.125, exercise price of CAD \$0.11, volatility of 100% and a monthly risk free rate of 0.53%.

Subsequent to March 31, 2017 there were warrant expirations, as follows: April 2017 103,466 warrants; May 2017 5,613,035 warrants and June 2017 1,817,332 warrants. All had an exercise price of \$0.25 per share.

During November 2016, there were 6,000,000 options granted to Zenith's officers, directors, employees and consultants. Each option entitles the holder to acquire one share for \$0.10 per share for the period ending March 31, 2021. These were also valued using the Black Scholes model. The inputs to the calculation were as follows; stock price of CAD \$0.07, exercise price of CAD \$0.10, volatility of 100% and a monthly risk free rate of 0.53%.

In March 2017, a Director elected to exercise 1,000,000 options to purchase 1,000,000 common shares. These shares were not issued prior to year-end, and the CAD \$100k contribution amount has been included in contributed surplus.

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**14. Financial assets at fair value through profit or loss**

**(a) Equity securities**

The fair value of equity securities is based on their current bid prices in an active market.

<b>Equity securities</b>	<b>2017</b>	<b>2016</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
As at 1 April	8	34
Sale	(11)	-
Gain on sale	4	-
FV movement	-	(27)
Foreign exchange	(1)	1
<b>As at 31 March</b>	<b>-</b>	<b>8</b>

The Group disposed of all of the above shares for gross cash proceeds of CAD\$11k in July 2016 recognising a \$3k gain on disposal and a \$1k loss on foreign exchange.

**(b) Bonds**

The bonds relates to investments in equity instruments that do not have a quoted market price in an active market and cannot be reliably measured; in which case this investment is measured at cost.

<b>Bonds</b>	<b>2017</b>	<b>2016</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
As at 1 April	-	203
Additions	-	110
Sale	-	(365)
(Loss) on sale	-	22
FV movement	-	27
Foreign exchange	-	3
<b>As at 31 March</b>	<b>-</b>	<b>-</b>

**15. Loans and Notes payable**

<b>Loans and Notes payable</b>	<b>2017</b>	<b>2016</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
Loan payable - current	973	3,210
Loan payable – non-current	4,527	674
<b>Total</b>	<b>5,500</b>	<b>3,884</b>

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(a) Notes payable

Notes payable	2017	2016
	CAD \$'000	CAD \$'000
As at 1 April	-	200
Loan receipt	365	-
Change adjustment	(205)	-
Interest	8	75
Repayment	(168)	(275)
<b>As at 31 March</b>	<b>-</b>	<b>-</b>

**Pound Convertible Note**

On November 22, 2016, Gunsynd Plc ("Gunsynd"), a company listed on the London Stock Exchange's AIM market for listed securities, invested GBP£100k (CAD\$166k) by way of subscription for convertible unsecured loan notes bearing interest of 3% per annum (the "GBP Convertible Notes"). The GBP Convertible Notes are payable in arrears in quarterly instalments. At the option of Gunsynd, the principal of the GBP Convertible Notes may be converted into Common Shares of the Group at any time prior to the expiry of 36 months from issuance at a price equal to CAD \$0.10 per Common Share (or the initial listing price of the Common Shares if the Group is listed on another senior stock exchange at the time of such conversion). Subject to the GBP Convertible Notes not having been converted, the GBP Convertible Notes mature 36 months from the date of issuance. Unless permitted under Canadian securities legislation, the GBP Convertible Notes cannot be traded before the date that is four months and a day after the date of issuance.

On March 21, 2017 the bond-holder elected to fully convert its principal amount of unsecured convertible note into common shares of the Group, at the conversion price of CAD\$ 0.10.

Upon conversion of the convertible note 1,637,210 common shares were issued to Gunsynd and this fully extinguishes the Pound Convertible Note.

**Argentina Convertible note**

On July 16, 2016, the Group's wholly owned subsidiary in Argentina, Petrolera Patagonia S.r.l. ("PPSRL"), entered into a loan agreement with Arpenta Sociedad de Bolsa S.A. ("Arpenta"), pursuant to which PPSRL borrowed USD \$154,000 of Bonar 2017 Argentine sovereign bonds (the "Bonds") (the "Arpenta Bond Loan"). PPSRL subsequently sold the Bonds in the market (for Argentine pesos) to address cashflow requirements. Interest is payable on the Arpenta Bond Loan at a rate of 4% per annum. The Arpenta Bond Loan had a bullet repayment date of 15 December 2016, although management at PPSRL has taken steps for the Arpenta Bond Loan to be rolled-over (in whole) for an additional 180 day period.

On February 20, 2017 the Group announced the sale of its operations in Argentina to a group of local energy investors.

In accordance with the sale agreement dated February 24, 2017 the Group paid CAD\$105k to settle Zenith's obligation on this loan.

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(b) Borrowings

	2017	2016
Loans – current	CAD \$'000	CAD \$'000
As at 1 April	3,210	2,167
Loan receipt	1,106	539
Transfer between current / non-current	(1,576)	433
Repayments	(1,829)	(164)
Capitalisation of interest	-	175
Foreign exchange	62	60
<b>As at 31 March</b>	<b>973</b>	<b>3,210</b>

	2017	2016
Loans – non current	CAD \$'000	CAD \$'000
As at 1 April	674	433
Loan receipt	2,277	674
Transfer between current / non-current	1,576	(433)
Interest	-	-
Repayment	-	-
<b>As at 31 March</b>	<b>4,527</b>	<b>674</b>

a) USD loan payable

As at March 31, 2016, the Group was indebted to a third party lender for a USD 2,185k (\$2,832) loan payable secured by the shares of its wholly owned subsidiary, IPP, and bearing fixed interest at 10% per annum.

In January 2017 the Group repaid the USD 700k (CAD\$943k) of the USD loan, utilising part of the proceeds from the fundraising aligned with the listing on the London Stock Exchange of January 11, 2017. The President, CEO and Director of the Group, has provided a personal guarantee to the lender in respect of the repayment of the USD Loan by the Group. The final payment of approximately USD\$1,485k is repayable on April 30, 2018.

As at March 31, 2017, \$1,485k (March 31, 2016 – \$1,976k) of principal is classified as a non-current liability and \$329k (March 31, 2016 – \$157k) of accrued interest is included in trades and other payables.

b) Euro bank debt

On August 6, 2015, the Group obtained a €220k loan (CAD\$316k) from the GBM Banca of Rome. The loan is unsecured, bears fixed interest at 7% per annum and is repayable in 60 monthly payments of principal and interest until August 6, 2020.

As at March 31, 2017 the principal balance of the loan was €155k (CAD\$220k) of which \$61k is classified as a current liability and \$160k is classified as non-current.

c) Euro bank debt

On December 17, 2015, the Group obtained a €200k loan (CAD\$302k) from Credito Valtellinese Bank of Tortona. The loan is unsecured, bears fixed interest at 4.5% per annum and is repayable in 42 monthly payments of principal and interest until July 17, 2019.

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As at March 31, 2017 the principal balance of the loan was €137k (CAD\$195k) of which \$81k is classified as a current liability and \$114k is classified as non-current.

**d) Euro loan payable**

On October 1, 2015, the Group acquired a co-generation plant from a third party of which €401k (CAD\$595k) of the purchase price was in the form of a loan from the seller. The loan is secured by the co-generation plant and bears interest at 3.5% and is repayable in 30 monthly payments of principal and interest until March 31, 2018.

As at March 31, 2017, the principal balance of the loan was €178k (CAD\$233k) of which \$233k is classified as a current liability.

**e) USD \$320,000 General Line of Credit Agreement**

On August 9, 2016, the Group's wholly-owned subsidiary, Zenith Aran, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("Rabitabank") (the "First Credit Agreement") up to an amount of USD \$320k, for industrial and production purposes. The loan could be drawn down in tranches and as at 30 September 2016 it was fully drawn down. Rabitabank can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown or if the REDPSA is terminated.

This Credit Agreement bears interest at a rate of 12% per annum. The loan is guaranteed by the Group. In November 2016 the Group repaid the first tranche of the loan for the amount of USD160k.

On February 22, 2017 the terms of the repayment of this Credit Agreement were amended. During March 2017 the Group used additional USD\$160k (CAD\$213k) from the credit line.

As of March 31, 2017 the amount of USD \$320k (CAD \$399k) plus accrued interest was still outstanding, it is classified as a current liability, and was repaid on April 16, 2017.

**f) USD \$200,000 General Line of Credit Agreement**

On September 30, 2016, Zenith Aran entered into a general line of credit agreement with Rabitabank (the "Second Credit Agreement") up to an amount of USD \$200k. The Second Credit Agreement bears interest at a rate of 12% per annum. The loan is repayable in two tranches; USD \$100k (plus accrued interest) (CAD\$133k) was paid in February 2017 and the remaining USD \$100k (plus accrued interest) (CAD\$133k) is payable on April 2017. The loan is guaranteed by the Group.

As of March 31, 2017 the amount of USD \$100k (CAD \$133k) plus accrued interest was still outstanding, it is classified as a current liability, and was repaid on April 16, 2017.

**g) Swiss loan CHF 837,500**

On March 30, 2017 the Group acquired the Swiss based company Altasol SA, and assumed a loan subscribed for the former owner on December 21, 2015 for the initial amount of CHF838k (CAD \$1,120k). The loan bears interest at a rate of 2.32% per annum. The loan is repayable in anticipated quarterly tranches of CHF13k (plus accrued interest) (CAD\$17k).

As at March 31, 2017 the principal balance of the loan was CHF762k (CAD\$ 1,013k) of which CAD \$66k is classified as a current liability and CAD \$947k is classified as non-current.

**h) Swiss loan CHF 1,000,000**

On March 30, 2017 the Group acquired the Swiss based company Altasol SA, and assumed a loan subscribed by the former owner on December 21, 2015 for the initial amount of CHF1,000k (CAD \$1,336k). The loan bears interest at a rate of 2.2% per annum. The loan is repayable on July 02, 2019 (plus accrued interest). As at March 31, 2017 the principal balance of the loan was CHF1,000k (CAD\$ 1,330k) and is classified as a non-current liability.

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16. Convertible loans

Loans and Notes payable	2017 CAD \$'000	2016 CAD \$'000
Bond – non current	385	563
Convertible Notes – current	-	697
Convertible Notes – non-current	-	358
<b>Total</b>	<b>385</b>	<b>1,618</b>

Loans and Notes payable	2017 CAD \$'000	2016 CAD \$'000
Current	-	697
Non-current	385	921
<b>Total</b>	<b>385</b>	<b>1,618</b>

**BONDS (CAD\$'000)**

Balance – March 31, 2016	563
Interest	54
Accretion	24
Conversion	(121)
Repayments	(65)
Foreign currency translation	(70)
<b>Balance – March 31, 2017</b>	<b>385</b>

The bonds are secured by 99% of the oil and gas properties owned by the Group's subsidiary, Canel Italia SRL. The bonds bear interest at 12% per annum, payable quarterly, until the maturity date 36 months from the date of issuance at which time the principal amount of bonds is repayable in full.

Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of \$0.25 per share for a period of 36 months from the date of issuance. In connection with the private placement, the Group paid a finder's fees of GBP 11.25k (\$21k) and granted 67,500 finder's warrants exercisable at \$0.25 until for a period of 36 months from the date of issuance.

The grant date weighted average fair value of warrants was \$0.03 per warrant (\$50,900) estimated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	75%
Expected life	3 years
Dividends	Nil

On November 2016 the bond was partially repaid for CAD\$121k (with related accrued interest). As of March 31, 2017 the outstanding accrued bond interest was CAD\$10k.

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Convertible Notes

Convertible Notes	Debt component CAD \$'000	Derivative liability CAD \$'000	Face value CAD \$'000
<b>Balance – 31 March 2015</b>	<b>582</b>	<b>159</b>	<b>811</b>
Modifications	-	221	-
Conversion	(101)	(23)	(111)
Change in fair value	-	-	-
Accretion	187	-	-
Foreign exchange	29	-	31
<b>Balance – 31 March 2016</b>	<b>697</b>	<b>357</b>	<b>731</b>
New subscriptions	91	76	167
Conversion	(798)	(669)	(906)
Change in fair value	-	236	-
Accretion	39	-	-
Foreign exchange	(29)	-	8
<b>Balance – 31 March 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>

- On 7 July 2015, the Group amended the terms of the convertible notes whereby the conversion price was reduced from \$0.215 per share to \$0.125 per share and the rate of interest was reduced from 9% to 5%. The amended conversion price was based on the 7 July 2015 closing market price of the Group's shares. The effect of the amendments was not a substantial modification resulting in the de-recognition of the original liability and the recognition of a new liability. The reduction of the interest rate has been accounted for as a modification of the effective interest rate and amortised cost of the debt component and the reduction of the conversion price has been accounted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be \$231k on the date of modification.
- On 28 August 2015, CHF 80k Swiss Francs (CAD \$111k) principal amount of convertible notes were converted into 882,640 common shares resulting in the revaluation of the derivative liability component at its fair value of \$23k and the recognition of a \$13k gain on conversion of convertible notes in the consolidated statement of loss and comprehensive loss for the year ended 31 March 2016.
- In June 2016, the Group issued 2,730,000 common shares on the conversion of 225k Swiss Francs (\$300k) principal amount of convertible notes (Note 10).
- On November 28, 2016, the Group formalised the previously reached agreement for the amendments of the terms of its 5% convertible notes. The proposed amendments to the notes included an extension of two years to the maturity date from January 11, 2017 to January 11, 2019, a reduction to the conversion price from \$0.125 per common share to \$0.11 per common shares and a reduction to the interest rate payable by the Group from 5% to 1% for the remainder of the term. The proposed extension to the notes, and the reduction in the conversion price and interest rate remains subject to approval of the TSX Venture Exchange.
- On January 25, 2017 the Group issued 3,700,000 shares on the conversion of 311 Swiss Francs (CAD\$407k) principal amount of convertible notes.
- On March 21, 2017 the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 2,170,000 Common Shares of Zenith with an aggregate value of CDN\$ 239k (approximately £143k). As at March 31, 2017 there was CHF75k of accrued

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interest owing.

The fair value of the derivative liability at modification dates was determined using the Black Scholes pricing model based on the following assumptions:

<b>Maribaud Convertible Note</b>	<b>11 June 2016</b>	<b>25 January 2017</b>	<b>21 March 2017</b>	<b>31 March 2016</b>
Risk free interest rate	0.51%	0.82%	0.79%	0.54%
Expected life	0.59 years	1.96 years	1.96 years	0.78 years
Expected volatility	100%	100%	100%	84%

<b>Gunsynd Convertible Note</b>	<b>21 March 2017</b>	<b>31 March 2016</b>
Risk free interest rate	0.79%	-
Expected life	3.68	-
Expected volatility	85%	-

**17. Fair Value Movements**

	<b>2017 CAD \$'000</b>	<b>2016 CAD \$'000</b>
Financial assets	5	(94)
Convertible Notes	658	13
Derivative liability	(236)	(222)
<b>Total</b>	<b>427</b>	<b>(303)</b>

**Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for:

**a) Property, plant and equipment**

The fair value of property and equipment recognised in a business combination is based on fair value at the date of acquisition.

**b) Cash, trade and other receivables, trade and other payables, oil share agreement, notes payable and loan payable**

The fair value of cash, trade and other receivables, trade and other payables, oil share agreement, note payable and loan payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**c) Marketable securities**

The fair value of the marketable securities is based on the quoted market price of the marketable securities on statement of financial position date.



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**d) Derivative liability**

The derivative liability is marked-to-market at each reporting date using the Black-Scholes pricing model.

**e) Stock options and warrants**

The fair value of stock options and warrants is measured using a Black-Scholes pricing model.

**f) Financial instruments**

The Group determines the fair value of financial instruments according to the hierarchy based on the amount of observable inputs used to value the instrument.

**18. Oil share agreement**

In connection with a business combination completed in July 2010, the Group became obligated to an oil share agreement pursuant to which, for a period of three years commencing November 30, 2010, the Group would provide the vendor with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil from the properties at a per barrel invoice price that exceeds USD 42.00, but is less than or equal to USD 52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds USD 52.00. The term of the agreement ended on November 2, 2013 however, the Group has not yet made any payments under this agreement.

The responsibility for this liability was transferred to the new owners of the Argentinian business that was disposed of on February 8, 2017, with the write-off of the amount included in the loss on sale of subsidiaries (Note 7).

The following table presents the reconciliation of the carrying amount of the oil share agreement:

	2017	2016
	CAD \$'000	CAD \$'000
Balance – beginning of year	1,028	1,005
Disposal of subsidiaries	(1,040)	-
Foreign currency translation	12	23
Balance – end of year	-	1,028

**19. Decommissioning obligation**

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Group's oil and gas properties (CAD \$):

	2017	2016
	CAD \$'000	CAD \$'000
<b>Balance – beginning of year</b>	<b>7,897</b>	<b>5,779</b>
Business combination	1,790	11
Writeback on disposal of subsidiaries	(2,215)	-
Measurement adjustment	630	-
Change in estimate	-	2,163
Accretion	98	288
Foreign currency translation	(220)	(344)
<b>Balance – end of year</b>	<b>7,980</b>	<b>7,897</b>

The provision has been made by estimating the decommissioning cost at current prices using existing technology.

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The following significant weighted average assumptions were used to estimate the decommissioning obligation:

	<b>2017</b>	<b>2016</b>
Undiscounted cash flows – uninflated	CAD \$8 million	CAD \$17 million
Undiscounted cash flows - inflated	CAD \$8 million	CAD \$1,223 million
Risk free rate	3.4%	35.2%
Inflation rate	1.4%	25.4%
Expected timing of cash flows	15.5 years	16-20 years

**20. Staff cost**

(a) *Employee compensation cost*

During March 2017, the Group had an average number of 212 full time employees.

The following table details the amounts of total employee compensation included in the statement of comprehensive income:

	<b>2016</b>	<b>2017</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
Operating	1,275	983
General and administrative	864	433
<b>Total employee compensation cost</b>	<b>2,139</b>	<b>1,416</b>

(b) *Key management compensation*

The following table summarises annual compensation and long-term compensation of the Corporation's "Named Executive Officers" (as defined by Form 51-102F6) for the three most recently completed financial years that ended on 31 March 2017. The named executive officers equate to key management personnel:

Name and principal position	Year <sup>(2)</sup>	Short term employee benefit	Other short term benefits	Other long term benefits	Termination benefits	Other benefits	Total
		CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	
Andrea Cattaneo <sup>(1-2)</sup>	2016	303	-	-	-	-	303
	2017	224	-	-	-	-	224
Luigi Regis Milano <sup>(3)</sup>	2016	59	-	-	-	-	59
	2017	29	-	-	-	-	29
Jose Ramon Lopez-Portillo	2017	-	-	-	-	-	-

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Name and principal position	Year <sup>(2)</sup>	Short term employee benefit CAD \$'000	Other short term benefits CAD \$'000	Other long term benefits CAD \$'000	Termination benefits CAD \$'000	Other benefits CAD \$'000	Total CAD \$'000
Dario Sodero <sup>(4)</sup>	2017	15	-	-	-	-	15
Erik Larre	2017	-	-	-	-	-	-
Francesco Salimbeni <sup>(5)</sup>	2017	-	-	-	-	-	-
Saadallah Al-Fathi	2017	-	-	-	-	-	-
Alan Hume	2017	138	-	-	-	-	138

Notes:

1. Andrea Cattaneo was appointed President and Chief Executive Officer effective 01 January 2009. As proposed by the Compensation Committee, Mr. Cattaneo's annual consulting fee payment is approximately CAD \$200,000, payable in equal monthly instalments, plus benefits for the year ended 31 March 2017.
2. Andrea Cattaneo had an yearly compensation of CAD\$200,000 from the parent Company, and CAD\$ 24,000 from subsidiary undertakings, for the year ended March 31, 2017
3. Luigi Regis Milano had an yearly compensation of CAD\$ 29,000 from subsidiary undertakings, for the year ended March 31, 2017
4. In the year ending March 31, 2017, Mr. Sodero received a fee for professional consulting services of approximately CAD\$15,000.
5. Mr. Francesco Salimbeni passed during the year. He was replaced by Mr. Saadallah Al-Fathi.
6. Alan Hume served as CFO from September 2016 to April 2017.

The Group has a share option plan (the "Plan") for the benefit of directors, employees and consultants. The maximum number of shares available under the Plan is limited to 10% of the issued and outstanding common shares at the time of granting options. Granted options are fully vested on the date of grant, at which time all related share-based payment expense is recognised. Share options expire five years from the date of granting. The details of options issued to Directors are included in note 13.

In March 2017, a Director elected to exercise 1,000,000 warrants to purchase 1,000,000 common shares. These shares were not issued prior to year-end, and the CAD \$100k contribution amount has been included in contributed surplus.

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21. Change in working capital

	2017 CAD \$'000	2016 CAD \$'000
Trade and other receivables	(877)	(115)
Inventory	36	(82)
Prepaid expenses	327	(164)
Prepaid property and equipment insurance	(205)	175
Trade and other payables	(324)	1,538
<b>Change in working capital from continuing operations</b>	<b>(1,043)</b>	<b>1,352</b>
Working capital on disposal of subsidiaries	176	-
<b>Total change in working capital</b>	<b>(867)</b>	<b>1,352</b>

22. Inventory

As at 31 March 2017, inventory consists of CAD \$43,000 of crude oil that has been produced but not yet sold, and \$95,000 of materials (2016 – CAD \$173,000 crude oil and \$nil materials).

	2017		2016	
	Barrels	CAD \$'000	Barrels	CAD \$'000
Argentina	-	-	2,462	173
Azerbaijan	272	43	-	-
Azerbaijan - materials	-	95	-	-
		<b>138</b>		<b>173</b>

23. Earnings per share:

	2017 CAD \$'000	2016 CAD \$'000
Net profit (loss)	567,378	(7,675)
Basic weighted average number of shares ('000)	69,626	29,292
Potential dilutive effect on shares issuable under warrants ('000)	55,326	3,724
Potential diluted weighted average number of shares ('000)	124,952	33,016
Net Profit (loss) per share – basic (1)	\$ 8.15	\$ (0.23)
Net Profit (loss) per share – diluted	4.54	(0.23)
Net Profit (loss) per share continuing operations – basic	\$ 8.16	\$ (0.23)
Net Profit (loss) per share continuing operations – diluted	4.55	(0.23)
Net (loss) per share discontinued operations – basic and	\$ (0.01)	\$ 0.00

<sup>(1)</sup> The Group did not have any in-the-money convertible notes, warrants and stock options during the years ended March 31, 2017 and 2016. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

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The basic and diluted loss per share for 2016 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. The dilutive effect of options and warrants outstanding at 31 March 2017 would result in a reduction of earnings per share from CAD \$8.15 to CAD \$4.54. Details of share warrants and options that could potentially dilute earnings per share in future years are set out in Note 13.

**24. Related party transactions**

Related party transactions are considered to be in the normal course of operations and are initially recognised at fair value. Related party transactions during the years ended 31 March 2017 and 2016 not disclosed elsewhere in these consolidated financial statements are as follows:

- a) Included in general and administrative expenses for the year ended 31 March 2017 is CAD \$195k (2016 – CAD \$282k) charged by a director of the Group (Andrea Cattaneo) for office rent and administrative services. As at 31 March 2017, CAD \$ nil (2016 – CAD \$Nil) was included in trade and other payables in respect of these charges.
- b) Included in trade and other payables is CAD \$ nil (2016 – CAD \$52k) due to a Director of the Group (Andrea Cattaneo) in respect of short term, non-interest bearing advances made to the Group.
- c) Included in trade and other payables is CAD \$ nil (2016 – CAD \$9k) due to a Director of the Group (Andrea Cattaneo) in respect of general and administrative expenditures made on behalf of the Group for which the officers and directors will be reimbursed.
- d) Included in trade and other payables is CAD \$ nil (2016 – CAD \$30k) due a Director of the Group (Andrea Cattaneo) in respect of salaries.
- e) On November 7, 2016, the Group closed a non-brokered private placement of 2,745,062 Common Shares at a price of CAD \$0.12 per unit for aggregate gross proceeds of CAD \$329k. Insiders of the Group subscribed for an aggregate of 2,195,475 units for aggregate subscription proceeds of CAD \$263k as follows:
  - a. Andrea Cattaneo (a Director of the Group) subscribed for a total of 583,333 shares for total proceeds of CAD \$70k;
  - b. Luigi Regis Milano (a Director of the Group) subscribed for a total of 1,612,142 through Pole Position SRL, a company controlled by members of Mr. Milano’s immediate family, for total proceeds of CAD \$193k
- f) Details of Directors’ remuneration, and options issued as incentives to Directors can be found in the Directors’ Remuneration Report

**25. Financial risk management**

	2016	2017
	CAD \$'000	CAD \$'000
<b>Financial Assets</b>		
Trade and other receivables	1,648	787
Cash and cash equivalents	3,924	138
Financial instruments at fair value through profit or loss	-	8
<b>Total financial assets</b>	<b>5,572</b>	<b>933</b>

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Details on the Group's financial liabilities are included below under liquidity risk.

The Group finances its operations through a mixture of equity, debt and retained earnings. Finance requirements are reviewed by the Board when funds are required for acquisition, exploration and development of projects.

The Group's policy is to maintain an appropriate financial position to sustain future development of the business. There were no changes to the Group's capital management approach during the year ended 31 March 2017.

The Group's treasury functions, which are managed by the board, are responsible for managing fund requirements and investments which include banking, cash flow management, interest and foreign exchange exposure to ensure adequate liquidity to meet cash requirements.

The Group's principal financial instruments are cash, deposits and assets held for sale and these instruments are only for the purpose of meeting its requirement for operations.

The Group's main financial risks are foreign currency risk, liquidity risk, interest rate risk, commodity price risk and credit risks. Set out below are policies that are used to manage such risks:

**a) Credit risk**

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Group's maximum credit risk exposure is limited to the carrying amount cash of CAD \$3,924k (2016 – CAD \$138k) and trade and other receivables of CAD \$1,648k (2016 – CAD \$1,173k).

Deposit and other market instruments are, as a general rule, placed with banks and financial institutions that have credit rating of not less than AA or equivalent which are verified before placing the deposits.

The composition of trade and other receivables is summarised in the following table:

	<b>2017</b>	<b>2016</b>
	<b>CAD \$'000</b>	<b>CAD \$'000</b>
Oil and natural gas sales	1,544	475
Stamp tax and other tax withholdings	8	217
Goods and services tax	19	12
Other	129	469
	<b>1,700</b>	<b>1,173</b>

The receivables related to the sale of oil and natural gas are due from large companies who participate in the oil and natural gas industry in Argentina and Italy. Oil and natural gas sales receivables are typically collected in the month following the sales month.

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The Group's receivables are aged as follows:

	2017 CAD \$'000	2016 CAD \$'000
Current	1,499	929
90 + days	149	244
	<u>1,648</u>	<u>1,173</u>

**b) Liquidity risk**

Liquidity risk is the risk that the Group will incur difficulties meeting its financial obligations as they are due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions without incurring unacceptable losses or risking harm to the Group's reputation.

The Directors have considered the recoverability of the outstanding debts of the Group and do not consider there to be any impairment necessary.

As of 31 March 2017, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying Amount CAD \$'000	Contractual cash flow CAD \$'000	Due on or before 31 March 2018 CAD \$'000	Due on or before 31 March 2019 CAD \$'000	Due after 31 March 2019 CAD \$'000
Trade and other payables	2,913	2,913	2,913	-	-
Loan payable	5,500	6,621	998	3,109	2,514
Bonds payable	385	423	45	378	-
Deferred consideration	484,474	1,191,428	1,544	10,076	1,179,808
	<u>493,272</u>	<u>1,201,385</u>	<u>5,500</u>	<u>13,563</u>	<u>1,182,322</u>

**c) Currency risk**

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange rates to Canadian dollars for the noted dates and periods are as follows:

	Closing rate		Average rate	
	2017	2016	2017	2016
US dollars	1.3310	1.2971	1.3125	1.3114
Euro	1.4222	1.4775	1.4401	1.4476
Swiss Franc	1.3299	1.3535	1.3299	1.3478
British Pound	1.6550	1.8652	1.7154	1.9755

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The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at 31 March 2017 and 2016 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

	2017 CAD \$'000	2016 CAD \$'000
US dollars	280	284
Euro	84	134
Swiss Franc	244	105
British Pound	38	53
	646	576

**d) Commodity price risk**

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices.

As at 31 March 2017, a 5% change in the price of natural gas produced in Italy would represent a change in net income for the year ended 31 March 2017 of approximately CAD \$4k (2016 – CAD \$23k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the year ended 31 March 2017 of approximately CAD \$29k (2016 – CAD \$13k).

As at March 31, 2017, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net profit (loss) for the year ended March 31, 2017 of approximately \$189k (2016 – not applicable).

**e) Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Group has fixed interest on notes payable, loans payable and convertible notes and therefore is not currently exposed to interest rate risk.

**26. Capital management**

The Group's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to explore and develop its projects to provide returns for shareholders and benefits for other stakeholders.

	2017 CAD \$'000	2016 CAD \$'000
Working capital (deficiency)	1,437	(6,709)
Long-term debt	4,912	1,595
Shareholders' equity	575,447	(2,278)

The Group's cash flows from the Argentinian and Italian operations will be needed in the near term to finance the operations and repay vendor loans. Therefore, the Group's principal source of funds will remain the issuance of common shares. The Group's ability to raise future capital through equity is subject to uncertainty and the inability to raise such capital may have an adverse impact over the Group's ability to continue as a going concern.

The Group is not subject to any externally imposed capital requirements.



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**27. Operating segments**

The Group's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Group's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Board of the Directors.

The Group has four reportable segments which are as follows:

- Argentina (disposed of in 2017);
- Italy, which commenced gas operations following the acquisition of assets in June 2013 (Note 8);
- Azerbaijan, which was acquired during the 2017 financial year; and,
- Other, which includes corporate assets and the operations in the Canadian, Swiss and US entities.

<b>YEAR 2016</b>	<b>Argentina CAD \$000</b>	<b>Italy CAD \$000</b>	<b>Other CAD \$000</b>	<b>Total CAD \$000</b>
Property and equipment	3,177	11,421	-	14,598
Other assets	504	959	236	1,699
Total liabilities	5,378	7,134	6,063	18,575
Capital Expenditures	(237)	(178)		(415)
Revenue	1,284	791	-	2,075
Royalties	(115)	-	-	(115)
Operating and transportation	(1,341)	(692)	-	(2,033)
General and Administrative	(420)	(490)	(2,188)	(3,098)
Depletion and depreciation	(66)	(267)	-	(332)
Impairment of property and equipment	-	(5,025)	-	(5,025)
Other expense	796	(68)	(295)	433
Finance and other expenses	(275)	(122)	(697)	(1,094)
<b>Segment (loss)/ income</b>	<b>(136)</b>	<b>(5,873)</b>	<b>(3,180)</b>	<b>(9,189)</b>

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YEAR 2017	Argentina CAD \$000	Azerbaijan CAD \$000	Italy CAD \$000	Other CAD \$000	Total CAD \$000
Property and equipment	-	1,064,642	8,285	6	1,072,933
Other assets	-	1,630	760	3,774	6,164
Total liabilities	-	488,127	7,387	8,135	503,649
Capital Expenditures	-	212	195	6	413
Revenue	78	3,772	653	-	4,503
Royalties	(7)	-	-	-	(7)
Operating and transportation	(583)	(2,699)	(334)	-	(3,616)
General and Administrative	(266)	(894)	(274)	(3,139)	(4,573)
Depletion and depreciation	(11)	(1,113)	(185)	-	(1,309)
Impairment of property and equipment	(2)	-	(2,985)	-	(2,987)
Other income (expense)	107	578,988	1	579	579,675
Finance and other expenses	(106)	(38)	(143)	(449)	(736)
Loss on disposal	-	-	-	(3,572)	(3,572)
<b>Segment (loss)/ income</b>	<b>(790)</b>	<b>578,016</b>	<b>(3,267)</b>	<b>(6,581)</b>	<b>567,378</b>

The following customers combined have 10% or more of the Group's revenue:

		2017 CAD \$000	2016 CAD \$000
Customer A		3,772	-
Customer B		-	1,284

## 28. Controlling party

At as of the end of the financial year ending 31 March 2017, the Directors do not consider there to be a controlling party.

## 29. Post Balance Sheet events

### Change Rate

CAD\$/CHF	1.3377
CHF/CAD\$	0.7475

The outstanding amount of convertible note, at the date of this document, is CHF75k Swiss Francs (\$101k) of accrued interest.

- a) On April 16, 2017 the Group repaid USD \$320k (plus accrued interest) (CAD \$426k) relating the USD \$320k General Line of Credit Agreement in Azerbaijan
- b) On April 16, 2017 the Group repaid USD \$100k (plus accrued interest) (CAD \$133k) relating the USD \$200k General Line of Credit Agreement in Azerbaijan

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- c) On April 6, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to an amount of USD\$ 320k (CAD\$424k). This Credit Agreement bears interest at a rate of 12% per annum and is repayable in 4 installments of USD\$80k (CAD\$106k) each (plus accrued interest) on 6 July 2017, 6 October 2017, 6 January 2018 and 6 April 2018.
- d) On April 12, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to an amount of USD\$ 200k (CAD\$265k). This Credit Agreement bears interest at a rate of 12% per annum and is repayable on April 12, 2018 (plus accrued interest).
- e) On May 17, 2017 the Group granted additional Options to certain of its Directors and employees to acquire a total of 2,750,000 Common Shares pursuant to its Stock Option Plan. Each Option granted entitles the relevant holder to acquire one Common Share for an exercise price of CAD \$0.15 per Common Share. The expiry date of the Options is the date falling five years from the date of grant, being May 17, 2022.
- f) During the subsequent months following the year's end some of the outstanding warrants expired, as follows: April 2017 no. 103,466; May 2017 no. 5,613,035 and June 2007 no. 1,817,332 all at the exercise price of \$0.25 per share.
- g) On May 25, 2017 the Group announced that following the its announcement on February 22, 2017 that a Director of the Group had exercised an option to acquire 1,000,000 new Common Shares in the capital of the Group, the Option Shares have been issued on May 23, 2017 following confirmation by Mr. Regis Milano of the custodian to whom they should be issued.