ZENITH ENERGY LTD.

Annual Report and Financial Statements

Year ended March 31, 2018

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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)
Erik Larre (Non-Executive Director)
Sergey Borovskiy (Non-Executive Director – Appointed on 24 July 2017)

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COMPANY INFORMATION (CONTINUED)

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Calgary AB T2P 1T1

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Toronto, ON M5J 2Y1, Canada

CHAIRMAN'S STATEMENT

I hereby present the Annual Report and financial statements for the year ended March 31, 2018.

The Group achieved the following important milestones:

a) During the financial year ended March 31, 2018 the Group produced 94,383 bbls of oil and sold 81,745 bbls of oil from its assets in Azerbaijan. There is no exact comparative data for the year ended March 31, 2017 because the effective handover data, and the consequent beginning of operations was August 11, 2016 thereby meaning that the comparative is not a 12 month period.

   It should be noted that production from a number of the Group's wells in Azerbaijan was suspended during Q3 as a result of field rehabilitation operations, specifically the installation of electrical submersible pumps and well interventions. Daily production from the field was also affected as a result of the Group receiving faulty chemicals to treat its oil production from an international chemical supplier. The Group has now replaced the faulty chemical and has ordered new chemical supplies to avoid similar problems in the future.

b) During the financial year ended March 31, 2018, the Group sold 16,909 mcf (2017 – 25,124 mcf) of natural gas production from its Italian assets.

c) During the financial year ended March 31, 2018, the Group sold 1,589 bbls (2017 – 692 bbls) of condensate production from its Italian assets.

d) During the financial year ended March 31, 2018, the Group sold 7,975 MWh (2017 – 9,636 MWh) of electricity production from its Italian assets.

e) On July 29, 2017 the Group established an oilfield services subsidiary company, Zena Drilling Limited ("**Zena**"), incorporated in the Ras Al Khaimah Free Trade Zone ("**RAKFTZ**"), United Arab Emirates ("**UAE**"). Zena is a 100% beneficially owned subsidiary of the Company. Zena was incorporated by Andrea Cattaneo as a fiduciary service for the Company and the shares in Zena are currently registered in the name of Mr Andrea Cattaneo as trustee for the Company. Due to the process of incorporation in RAKFTZ, this was the most efficient method of establishment and due to the UAE not being a signatory to The Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents, the process of transferring legal ownership to Zenith is elongated and is not expected to be completed until later in 2018. The financial statements of the Group include the assets, liabilities and results of Zena as the Directors consider the Group to control the operations and assets of the entity.

f) On August 21, 2017 the Group announced that it had signed a contract for the procurement of oil production materials with Kerui Petroleum, a leading Chinese manufacturer of oilfield equipment.

   The total value of the procurement contract between Kerui Petroleum and Zenith is USD$1,706k (approximately £1,325k; CAD$2,146k). The terms of payment have been defined in accordance with INCOTERMS 2010, and will take place within 1 year of the contract's effective date, which was January 2, 2018. As stipulated by the contract the Group paid 15 percent of the total contract value in advance as deposit before the year end and has begun to take delivery of certain components of the production materials.

   The procurement of this new equipment will enhance the Group's operational capabilities, enable the Group's personnel to work in remote field locations, and replenish the Group's stock of oil production materials.

   The materials procured include: a blowout preventer (BOP); a full set of well control equipment; drill pipes to be used as a work string; tubing to be used in the installation of new electric submersible pumps and in old wells that have been returned to production; new oilfield infrastructure; lighting equipment; and a generator system to enable a workover rig to operate without the need for nearby infrastructure across the 642.4 km² field area.

The procurement of these materials demonstrates the Group's preference for acquiring its own equipment and resources across its operational activities. This ensures lower costs, direct accountability, and comprehensive oversight of the Group's operations. The Group's stock of oilfield equipment will also avoid the risk of the Group's operations being affected by third-party delays, specifically in supplying equipment that the Group's systematic field rehabilitation activities often require on an immediate basis.

g) On November 1, 2017 the Group announced that it had signed a commitment letter with Olieum Services WLL ("**Olieum**"), an integrated oilfield services and equipment joint venture based in Bahrain, for the procurement of a Genesis BQ500 onshore drilling rig. Olieum has worked closely with the Group to structure a unique lease arrangement that aligns the Group's targeted growth plans and cash flows with its future equipment requirements.

The Genesis BQ500 is the latest generation, automated onshore hydraulic drilling rig to be manufactured by B Robotics W S.R.L, a founding partner in Olieum, and a leading Italian oil and gas innovation company specialising in the design and manufacture of advanced oil and gas drilling equipment. The rig is expected to deliver enhanced automation, efficiency and safety to the Group's drilling operations, whilst driving down costs and time-to-production. This has largely been achieved through extensive research and development in modular rig design, and in key components including the monkey board, slips, lay-up and down machine, pipe containers, roughneck, subs and bits loader, and all the working floor tools.

On June 25, 2018, the Group announced that it had signed a revised commitment letter (the "**Commitment Letter**") via the subsidiary, Zena, with Olieum on June 22, 2018 that superseded the aforementioned commitment letter announced on November 1, 2017. The Commitment Letter includes a number of more favourable terms for the Group over the previous commitment letter. The Group announced the following key terms of the Commitment Letter: Six-year lease of a BQ500 2000HP automated hydraulic drilling rig; option to renew the operating lease for a further six years upon completion of the first six-year term; ownership of the BQ500 shall be transferred to the Group once all payments are made during an operating lease period of twelve years; six-month 'grace period' starting from the beginning of drilling operations using the BQ500 during which time the Group will not pay any leasing costs.

Furthermore, the Company announced that the Genesis BQ500 is scheduled for delivery in December 2018.

h) On March 28, 2018 the Company announced that it had entered into a binding exclusivity and an option to purchase agreement (the "**Agreement**") for the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**").

- The Proposed Acquisition envisages the Company acquiring a 100% working interest in an oil production licence comprising two onshore blocks, with a combined total acreage covering approximately 65 sq. kilometres.
- Existing production in excess of 1,000 barrels of oil per day transported by pipeline directly into the national oil sales system with a reported all-in average production cost of US$18 per barrel.
- The oilfields are located in a prolific oil and gas basin with a proven petroleum system. At present, only one of the two oilfields is producing. The second oilfield is expected to be capable of significant production by drilling new wells and performing workovers on existing wells.
- Drilling activities can be performed at relatively low-cost and without significant delay. The average total depth of production wells in the licence area of the Proposed Acquisition is between 350 to 750 metres.
- The approved development programme for the licence area, involving the drilling of new wells and the introduction of new oil production technology, is expected to double current production from the Proposed Acquisition by 2020.

- 2D seismic dataset covering key oil production locations.

On March 28, 2018 the Company announced that Mr Andrea Cattaneo, the Chief Executive Officer and President of the Company, had agreed to make a down payment of US$100,000 by April 15, 2018 (the "**Deposit**") on behalf of the Company. After completing the Due Diligence, the Company has a period of 15 days to choose to exercise the binding option to complete the Proposed Acquisition (the "**Option**") for a total consideration of US$6,600,000 (the "**Consideration**"). The Consideration shall be payable as to 50 per cent., (US$3,300,000), within 7 business days of exercising the Option (the "**First Payment**"), and the balance, (US$3,300,000), payable by the deadline of August 31, 2018.

Zenith is considering a number of funding options for the Consideration including debt and equity. On April 16, 2018 the Company provided an update regarding its progress on the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**"). The Company announced that, in agreement with the vendor, it had extended the completion deadline for the due diligence until May 15, 2018. Zenith also announced that Mr. Cattaneo had advised the Company that the Deposit had been paid in full. The Company announced that if it exercises the Option to complete the Proposed Acquistion, then the Deposit will be offset against the First Payment, and the Company will reimburse Mr Cattaneo the Deposit. In the event that during the Due Diligence the Company finds negative discrepancies greater than 5% of the book values stated in the Proposed Acquisition's financial statements dated February 28, 2018, then the Deposit shall be refunded to Mr Cattaneo. If the Company decides not to exercise the Option for any other reason during the Due Diligence, the Deposit will be forfetied.

On May 16, 2018 the Company announced that its due diligence of the Proposed Acquisition in Indonesia, encompassing an evaluation of the legal, accounting, petroleum and fiscal aspects of the Proposed Acquisition, was in progress and that the Company expects to complete the Due Diligence shortly. The extension will enable the Company to further examine certain areas of the Proposed Acquisition that require clarity to satisfy the Company's stringent Due Diligence requirements. The Company also announced that it had decided to defer a decision on whether to proceed with the Proposed Acquisition until the second half of 2018 in order to focus on implementing its operational strategy in Azerbaijan.

During the year the Group reported a loss after taxation of CAD$9,918k (2017 – gain CAD$567,378k which arose predominantly from the gain on the business combination regarding Azerbaijan).

As at the date of this report the Group has approximately CAD$2,497k (2017 – CAD$3,924k) of cash and cash equivalents.

Following its listing on the London Stock Exchange in 2017, the Group has primarily focused on the development of its flagship asset in Azerbaijan.

The Group intends to successfully develop its flagship asset in Azerbaijan by increasing the scale of its operations, specifically by beginning its development drilling programme. More broadly, the Group's development strategy also includes the acquistion of value-accretive energy production assets with significant development potential to further enrich its asset portfolio.

DR. JOSÉ RAMÓN LÓPEZ-PORTILLO
Chairman
June 29, 2018 pp Adra Cattaneo

CEO STATEMENT

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

Zenith's strategy is defined by its focus on the acquisition and further development of proven onshore oil and gas fields where production has declined over time, but which hold significant untapped reserves and the possibility to produce sizeable volumes of oil & gas following investment in new field infrastructure, the application of modern production technology, and new management supervision. 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 financial and government experience and possess the technical knowledge to execute this strategy.

The Group operates the largest onshore oilfield in Azerbaijan by cumulative acreage through its fully owned subsidiary, Zenith Aran Oil Company Limited, with an average daily production of 300 barrels per day and independently assessed proven + probable (2P) reserves of 31.7 million barrels of oil. Zenith also operates, or has working interests in, a number of gas production and exploration concessions in Italy with independently assessed 2P reserves of 16.4 BCF. Zenith's Italian operations also include the production of electricity and condensate.

Azerbaijan represents an unprecedented opportunity for energy development and the Directors are committed to the successful long-term development of this large, potentially transformational asset. The Group is seeking to demonstrate its strengths as an operator in one of the largest and most-storied oil and gas countries in the world by emphatically concentrating its efforts towards systematically increasing daily production of oil from the Muradkhanli, Zardab and Jafarli oilfields.

Zenith's overarching strategy is to identify and rapidly seize opportunities in the onshore oil & gas sector. Specific attention is directed to fields formerly controlled by oil majors and state oil companies. These assets often have significant untapped potential and the capacity to produce sizeable volumes of oil & gas with investment in technology and new management supervision.

The results for the year ended March 31, 2018, clearly reflect the disappointing operational progress that the Group has achieved during the course of the 2018 Financial Year. The Group has to date, despite much potential and the significant deployment of its resources, been unsuccessful in achieving material increases in its daily production of oil in Azerbaijan. The primary reasons for this were due to additional challenges which were faced in the early stages of Azeri operation development, the complex geology of the field, and the poor condition of many of our wells.

Despite this initial set back, the arrival of two drilling rigs in Azerbaijan will allow the Group to complete the workover programme in the Zardab field and begin the planned drilling activities. Our understanding of the field and its complex geology has increased and following an in-depth geological study currently near-completion, we will soon be in a position to deliver important operational updates that are expected to bring our sizeable reserves into production and yield substantially increased production revenue.

The Group has updated the competent persons report ("CPR") as at 31 March 2018 following the additional challenges faced and the management team's improved understanding of the complex geology. The revised CPR formed part of the Directors impairment assessment of the Azeri asset as at 31 March 2018 following which no impairment has been recorded in the financial statements for the year ended 31 March 2018.

CEO STATEMENT (CONTINUED)

It should also be noted that CAD$3,469k (2017 – CAD$1,886) of our operating loss for the year of CAD$9,129k (2017 – CAD$ 4,063k), can be explained by the following non-cash items: depletion and depreciation of the assets of CAD$2,221k (2017 – CAD$ 1,299k), retranslation variance on decommissioning obligations of CAD$761k (2017 – profit of CAD$ 220k), fair value of share options issued of CAD$487k (2017 – CAD$ 367k).

The potential and vast untapped value of the Zenith story remains unchanged. The size of our reserves, and our existing oil & gas production activities generating significant revenue each month, distinguishes us from many listed companies of our size and makes us particularly attractive. Indeed, we have recently announced the achievement of record all-time high oil production revenue from our oil production in Azerbaijan for the months of March and April 2018. We shall build on these milestones with the intention of maximising our oil production against a highly encouraging backdrop of resurgent oil prices.

I thank shareholders for their support. As is clear, I remain fully confident that we shall be able to recover lost ground and deliver some exceptional results through our drilling programme. I expect this to be reflected in our next annual report.

The Board is committed to sustained growth and exploiting any value accretive opportunities that may present themselves. We shall continue to evaluate the acquisition of additional energy production opportunities in major historical oil countries, building on the momentum of our recent progress to further support the Group's expansion.

Andrea Cattaneo

Andrea Cattaneo
President, CEO and Director

June 29, 2018

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 (*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, specifically the oil industry. He also has significant experience in former socialist countries and arranged the first US$ loan to Vietnam, the then third poorest county in the world, towards the beginning of his financial career in 1985. Mr. Cattaneo holds an undergraduate degree in Economics from the University of Genoa and a postgraduate degree in Taxation Law from the University of Bologna. He currently serves as Non-Executive Member of the Anglo-Azerbaijan Society, Partner of the Buenos Aires Stock Exchange and Member of the IADC Caspian Chapter Steering Committee. He 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. He is one of Zenith's founders.

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, Canoel 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 and Chairman of the Audit Committee*)

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-Fathy (*Non-Executive Director*)

Mr. Saadallah Al-Fathy 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-Fathy has served as an advisor to several government and private entities as well as establishing himself as an award-winning oil & gas industry researcher and columnist. Mr. Al-Fathy has authored a number of research papers on the oil & gas sector and was recently joint winner of the 2016 scientific research award of the Organization of the Arab Petroleum Exporting Countries.

Erik Larre (*Non-Executive Director*)

Mr. Larre has been a Director of the Company since 22 March 2011. Mr. Larre specialises in international real estate development projects and banking. He has served as Deputy Chairman of Sparebanken Nord-Norge, Member of the Supervisory Board at Sparebanken Vest and currently serves as Deputy Member of the Board of Directors at SpareBank 1 Nord-Norge. Erik is also the director of several real estate companies in southern Europe and the Middle East. By training Erik is an engineer and holds a Masters degree in Civil Engineering from Milan Polytechnic University.

Sergey Borovskiy (Non-Executive Director – Appointed on 24 July 2017)

Sergey Borovskiy has over 25 years of experience in business management in China and Hong Kong. He has lived and worked in China since 1991 and is fluent in Russian, English and Mandarin.
Sergey is CEO of Sanju Environmental Protection (Hong Kong) Limited, overseeing the international projects of controlling shareholder Sanju Group (sanju.cn), a company specialised in energy purification and environmental protection technologies listed on the Shenzen Stock Exchange. He is CEO and Chairman of General Transactions Inc., an oil & gas consulting, engineering, trading, seismic research and exploration services company. Sergey also serves as Chairman of the Board of Directors at Petro Chemical Solutions and South China Heavy Industries Group. Sergey studied in both China and Russia and holds a degree in economics.

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 the Zenith Energy Ltd. group in 2013 as Chief Financial Officer of the Group's Italian subsidiary, Canoel 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 the compiling and reviewing of the quarterly Consolidated Financial Statements and Management's Discussion and Analysis of the Group.

DIRECTORS' REPORT

The Directors present their Annual Report and financial statements of the Group for the year ended March 31, 2018.

Financial review of activity for the period

The Company issued equity on a number of occasions during the financial year ended March 31, 2018, raising a combined total of CAD$5.56m to finance its workover plans and the purchase of key operational equipments for the development of its operational activities in Azerbaijan.

During the year, 43,221,468 new Ordinary Shares were issued, as detailed in the financial statements (note 14) and as per the following table.

	Number of Shares	Amount CAD$'000
Balance – 31 March 2017	**115,577,230**	**17,229**
Unit private placement proceeds	23,466,666	2,790
Conversion of stock option	6,650,000	652
Conversion of warrants	11,395,092	1,880
Units issued in settlement of debt	1,709,710	241
Total for the year	**43,221,468**	**5,563**
Balance – 31 March 2018	**158,798,698**	**22,792**

Following the issue of the new Ordinary Shares, the Company has 158,798,698 common shares in issue and admitted to trading on the Toronto Stock Exchange Venture Exchange.

Zenith currently has 153,200,119 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange. The above figure may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or change to their interest in, the share capital of the Company under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

During the year the Group incorporated two new subsidiaries, Zena Drilling Ltd in Dubai and Zentih Energy (O&G) Ltd in the United Kingdom. Zena Drilling Ltd was incorporated to be the drilling service company for the development of the Azeri asset. Zenith Energy (O&G) Ltd was incorporated to supply administrative services in London for Zenith Energy Ltd.

There have not been any other significant changes to the Group's financial condition and operating results in the period covered by, and subsequent to, the period covered by the financial statements.

During the year the Group incurred Production costs of CAD $5,160k (2017 – CAD $3,033) and General and Administrative costs of CAD $6,767k (2017 – CAD $4,155).

Cash flow

Cash used in investing activities totalled CAD $5,971k (2017 CAD $401k). The cash from financing activities in 2018 totalled CAD $4,974k (2017 CAD $5,710k), due to the announced different share placings.

Closing cash

As at March 31, 2018 the Group held CAD $2,497k in cash (March 31, 2017 CAD $3,924k).

Position of Company's business at the year end

The Company's primary focus is the successful development of its flagship asset in Azerbaijan and the consolidation of its energy production interests in Italy. The Company's development strategy is defined by its intention to identify and complete value-accretive acquisitions to further enrich its asset portfolio.

At the year end the Group's Statement of Financial Position shows current assets totaling CAD$ 4,582k (2017 – CAD$ 5,762k) and non-current assets totaling CAD$ 1,077,886k (2017 – CAD$ 1,073,334k).

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 at 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 programmes; 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:

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 a 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 all the risks typically associated with such operations, including 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.

Risks relating to the Group's business strategy

The Group is 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 implementing its strategy or acquiring a suitable investment that will ultimately be developed.

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.

Financing

The Board are seeking to grow and acknowledge that financing could depend upon the Group's ability to obtain financing primarily through a further raising of new equity capital. The Group's ability to raise further funds may be affected by the success of its investments both in terms of both in terms of acquisitions and developing its asset base. The Group may not be successful in procuring the requisite funds on terms which are acceptable to it (or at all) and, if such funding is unavailable, the Group may be required to reduce the scope of its operations. Further, Shareholders' holdings of Ordinary Shares may be materially diluted if debt financing is not available.

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 however investor markets in the UK have continued to be strong and it remains 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 inflations 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.

Substantial shareholders

As at June 29, 2018, the total number of issued Ordinary Shares with voting rights in the Company was 214,094,217.

The Company has been notified of the following interests of 3 per cent or more in its issued share capital as at the date of approval of this report.

PARTY NAME	NUMBER OF ORDINARY SHARES	% OF SHARE CAPITAL
DEAN ANTONY CLARK	13,200,000	6.17
MIRABAUD & CIE SA	11,556,167	5.40
MITON UK MICROCAP TRUST PLC	8,848,312	4.13
ANDREA CATTANEO	5,718,184	2.67

Dividends

The Directors do not propose a dividend in respect of the year ended March 31, 2018 (March 31, 2017: nil).

Events subsequent to the year end

Further details of the Group's events subsequent to the year end are set out in note 28.

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 1 of the financial statements. In addition, note 23 to the financial statements discloses the Group's financial risk management policy and note 2 details out 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. Further details on assumpions and conclusions drawn on going concern are included in the statement of going concern included in note 2 to the financial staements.

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 consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and also IFRSs as issued by the International Accounting Standards Board ("IASB"). 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 as adopted by the EU and as issued by the IASB 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 on 29 June 2018

Signed ...pp. Andrea Cattaneo...........................
Jose Ramon Lopez-Portillo Chairman

GOVERNANCE REPORT

General

As the Company has a standard listing within the United Kingdom, it is not required to comply with the Financial Conduct Authority's requirements report on compliance with, and application of, the UK Corporate Governance Code. The disclsoures below are required by Disclosure & Transparency Rule 7 and NI 58-101 Disclosure of Corporate Governance Practices. The board of directors (the "Board") of Zenith Energy Ltd. (the "Group") recognises that good corporate governance is of fundamental importance to the success of the Group.

The Group'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 role of the Board is to oversee the activity of management and to decide the strategy going forward. The non-executive directors role is to coach and monitor the activity of the Directors and managers that are involved in the operations of the Group. Acquisitions and disposals, borrowing facilities, issue of equity and any other major decision out of the ordinary course of business is specifically reserved for the Board.

The directors attendance to meetings up to the date of this report was as follows:

Date of Board Meeting	Jose Ramon Lopez-Portillo	Andrea Cattaneo	Luigi Regis Milano	Dario E. Sodero	Saadallah Al-Fathy	Erik Larre	Sergey Borowskiy *
14/04/2017	✓	✓	✓	✓			n.a.
19/04/2017	✓	✓	✓	✓			n.a.
17/05/2017		✓	✓	✓	✓	✓	n.a.
26/06/2017	✓	✓	✓	✓		✓	n.a.
26/06/2017	✓	✓	✓	✓		✓	n.a.
22/07/2017		✓	✓	✓	✓	✓	n.a.
11/08/2017		✓	✓	✓	✓		✓
10/11/2017	✓	✓	✓	✓			
02/12/2017		✓	✓	✓	✓		✓
31/05/2018	✓	✓	✓	✓	✓		

*** n.a. as Sergey Borowskiy was appointed to the board on 24 July 2018**

The Board

The Board is ultimately responsible for the effectiveness of the Group's system of internal controls. The Board verifies the implementation and effectiveness of the system that the top and middle management have implemented in the Group to prevent losses, fraud, corruption and missuse of assets, human resources and cash. 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. All the non-executive directors are considered independent from executive directors and management.

The Group's board of directors consists of seven 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)
- Sergey Borowskiy (Non-Executive Director)

As demonstrated by the background of the directors and managers, the Board present a large diversity in citizenship, age, education, profession and religion. The Board is committed to equal opportunities and intends to appoint a female non-executive director in the near future.

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:

Name	**Current directorships/partnerships**
Jose Ramon Lopez-Portillo	Hybridair Ltd
	World SkyCat Ltd
Luigi Regis Milano	DP Lubrificanti S.r.l.
Andrea Cattaneo	–
Dario E. Sodero	Planaval Resources Ltd. Rockbridge Resources Inc.
Saadallah Al-Fathy	–
Erik Larre	Black Sea Property EME Int. Ltd
	German Property AS TF Italia Srl
	Tonsenhagen Forrenthingssentrum AS
	Tonsenhagen Forrenthingssentrum 2
Sergey Borovskiy	Sanju Environmental Protection (Hong Kong) Limited
	General Transactions Inc.
	Petro Chemical Solutions
	South China Heavy Industries Group

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 Group. New directors are also provided with opportunities for meeting and 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.

Such officer 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 Group has adopted a Code of Conduct which addresses the Group'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 Group'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 Group 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 Group'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.

Board Committees

The Group'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 is chaired by Dario Sodero. The Audit Committee meets at least four times a year and otherwise as required. It has responsibility for ensuring that the financial performance of the Company is properly reported on and reviewed, and its role includes monitoring the integrity of the financial statements of the Company (including annual and interim accounts and results announcements), reviewing the effectiveness of the Company'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 Company'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 Company has an Audit Committee Charter.

(b) Remuneration Committee

The Remuneration Committee comprises Jose Ramon Lopez-Portillo, Dario Sodero and Saadallah Al-Fathy and will be chaired by Jose Ramon Lopez-Portillo. It meets not less than twice a year and at such other times as required. The Remuneration Committee has responsibility for determining the Company's policy on the remuneration packages of the Company'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 Company'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 Company'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 Sergey Borovskiy, Dario Sodero and Jose Ramon Lopez-Portillo and will be chaired by Sergey Borovskiy. It meets not less than once a year and at such other times as required. The Corporate Governance Committee will ensure that the Company has in place sufficient procedures, resources and controls to enable it to comply with its continuing obligations as a company admitted to the Standard Segment of the Official List. The Corporate Governance Committee will also monitor the Company's procedures to approve (a) announcements to ensure that the information disclosed by the Company is timely, accurate, comprehensive and relevant to the business of the Company and (b) any share dealings by directors or employees or announcements made by the Company to ensure compliance with the Company's policies, the Market Abuse Regulation, the Disclosure Guidance and Transparency Rules and the Listing Rules and such other regulations to which the Company 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 Group'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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZENITH ENERGY LIMITED

Opinion

We have audited the group financial statements of Zenith Energy Ltd for the year ended 31 March 2018 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 finanical statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the group financial statements:

- the Finanical Statements give a true and fair view of the state of the Group's affairs as at 31 March 2018 and of the group's loss for the year then ended;
- the Group Finanical Statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Group Finanical Statements have been prepared in accordance with the requirements of Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

The Group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). Our opinion is extended to this financial framework.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. In addition for the purposes of the Group's regulatory filing requirements as a reporting issuer in Canada we have also conducted our audit in accordance with International Standards on Auditing as issued by the International Auditing and Assurance Standards Board (ISA IAASB). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the finanical statements section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the finanical statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities and the IESBA Code of Ethics, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt

the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our application of materiality

Group materiality 2018	Group materiality 2017	Basis for materiality
CAD$10,800k	*CAD$10,700k*	*1% of gross assets*

We consider gross assets to be the most relevant consideration of the Group's financial performance as the Group continues to focus on and develop its Development &Production asset in Azerbaijan.

Whilst materiality for the financial statements as a whole was CAD$10,800k, each significant component of the Group was audited to a level of materiality ranging between CAD$60k – CAD$120k. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. At the planning stage, materiality is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes during the audit.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of CAD$540k (2016: CAD$535k). There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular we looked at areas involving significant accounting estimates and judgements by the Directors and considered future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. Of the seven reporting components of the Group, a full scope of audit was performed on the complete financial information of three components, the other four components were not deemed to be significant and were subject to review procedures.

Of the three reporting components subject to a full scope of audit, one is located in Azerbaijan and are audited by a non-PKF network component auditor operating under our instructions and one of the components is located in Italy and is audited by a PKF network firm operating under our instructions. The audit of the remaining components and the review procedures on the non-signifcant components were performed in London, conducted by PKF Littlejohn LLP using a team with specific experience of auditing oil and gas entities and public interest entities. The Senior Statutory Auditor interacted regularly with the component audit teams during all stages of the audit and was responsible for the scope and direction of the audit process. An onsite audit file review of the non-PKF component auditor was performed by a member of the Group audit team. This, in conjunction, with additional procedures performed, gave us appropriate evidence for our audit opinion on the Group financial statements.

Key audit matters

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

Key Audit Matter	How the scope of our audit responded to the key audit matter
Carrying amount of Development &Production ("D&P") assets within Property, Plant and Equipment (note 9) The carrying value of D&P assets within property, plant and equipment was CAD$1,077,445,000 of which CAD$1,064,642,000 is in respect of the Group's Azeri operations. As outlined within the "Critical accounting estimates and judgements" section (note 4) the carrying value of the 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. There is a risk that these assets are impaired.	Our work in this area included: • Ensuring that Zenith Energy had good title to the PPE assets held within the financial statements; • Discussing the plans for the development of the various assets owned by the Group; and • Reviewing the underlying economic models used in the Competent Persons Report ("CPR") from which the valuation arises and challenging 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; - Assess carrying value by considering the range of valuations indicated by the differing scenarios; and - Considering the ability of the Group to perform the required site development to ensure the site can be developed in accordance with that needed for the CPR valuation. The carrying value of the Azerbaijan asset is dependent upon workovers, new wells and process improvements being achieved over the next 3 years to ensure maximum recovery over the expected remaining life of the asset as well as ensuring that the requirements of the REDPSA are achieved. If these developments are unsuccessful, occur outside of the timeframe indicated

	in the CPR, do not meet the requirements of the REDSPA, or the Group has insufficient funds to implement them then this may give rise to an impairment of this asset. Whilst our opinion is not modified in this respect we do draw this matter to the attention of users of the financial statements given the material impact that an impairment to the Azerbaijan asset would have on the financial statements.
Revenue recognition Under ISA (UK) 240 there is a presumption that revenue recognition is a fraud risk. There is a risk that revenue from oil and gas sales, and the generation of electricity, has been incorrectly recognised in the Group financial statements.	We performed the following work in order to address the significant risk: - Updated our understanding of the internal control environment in operating for the significant revenue streams; - Substantive tests of detail on a sample of transactions to ensure revenue was accurately recorded in the financial statements; - Detailed analytical review procedures; - Cut-off testing to ensure revenue recognised related to the correct accounting period; and - Performed work to gain comfort over the audit testing carried out by the component auditors in this regard.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the Group 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) or ISA IAASB 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.

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

Other matters which we are required to address

We were appointed by the Audit Committee on 3 April 2017 to audit the financial statements for the year ending 31 March 2017. Our total uninterrupted period of engagement is 2 years, covering the periods ended 31 March 2017 to 31 March 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group and we remain independent of the group in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Joseph Archer

Joseph Archer (Engagement Partner)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

29 June 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Continuing operations		Financial year ended	
		31 March 2018	31 March 2017
	Note	CAD $'000	CAD $'000
Revenue	26	5,019	4,424
Cost of sales			
Production costs		(5,160)	(3,033)
Depletion and depreciation	9	(2,221)	(1,299)
Gross (loss)/profit		**(2,362)**	**92**
Administrative expenses	5	(6,767)	(4,155)
Operating loss		**(9,129)**	**(4,063)**
Fair value movements	18	-	427
Gain on business combination	10	-	578,995
Impairment	9	-	(2,985)
Finance expense	7	(789)	(633)
(Loss)/profit for the year before taxation		**(9,918)**	**571,741**
Taxation	8	-	-
(Loss)/profit for the year from continuing operations		**(9,918)**	**571,741**
(Loss)/profit from discontinued operations net of tax	10	-	(4,363)
(Loss)/profit for the year		**(9,918)**	**567,378**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		422	1,595
Other comprehensive income for the year, net of tax		**422**	**1,595**
Total comprehensive (loss)/income for the year attributable to owners of the parent		**(9,496)**	**568,973**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Financial year ended 31 March 2018	31 March 2017
Earnings per share	21	**CAD $**	**CAD $**
Basic from profit / (loss) for the year		(0.07)	8.15
Diluted from profit / (loss) for the year		(0.07)	4.54
From continuing operations – basic		(0.07)	8.16
From continuing operations – diluted		(0.07)	4.55
From discontinued operations – basic and diluted	10	-	(0.01)

The notes on pages 32 to 77 form part of the Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Financial year ended	
		31 March 2018	31 March 2017
ASSETS	Note	**CAD $'000**	**CAD $'000**
Non-current assets			
Property, plant and equipment	9	1,077,445	1,072,933
Other financial assets	13	441	401
		1,077,886	**1,073,334**
Current assets			
Inventory	11	177	138
Trade and other receivables	23	1,908	1,700
Cash and cash equivalents		2,497	3,924
		4,582	**5,762**
TOTAL ASSETS		**1,082,468**	**1,079,096**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	14	22,792	17,229
Share warrants & option reserve	15	875	1,877
Contributed surplus		3,390	2,332
Retained earnings		544,837	554,009
Total equity		**571,894**	**575,447**
Non-current liabilities			
Loans	16	4,949	4,527
Deferred consideration payable	19	483,616	484,034
Non-convertible bond	17	-	385
Decommissioning provision	20	9,140	7,980
Deferred tax liabilities	8	2,398	2,398
Total non-current liabilities		**500,103**	**499,324**
Current Liabilities			
Trade and other payables	23	9,238	2,912
Loans	16	237	973
Deferred consideration payable	19	589	440
Non-convertible bond	17	407	-
Total current liabilities		**10,471**	**4,325**
TOTAL EQUITY AND LIABILITIES		**1,082,468**	**1,079,096**

Approved by the Board dated on 29 June 2018

Signed ..pp. Andrea Cattaneo..........
Jose Ramon Lopez-Portillo Chairman
The notes on pages 32 to 77 form part of the Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent				
	Share capital	Share warrants & option reserve	Contributed surplus	Retained earnings	Total
	CAD $'000	CAD $'000	CAD $'000	CAD$'000	CAD $'000
Balance as at 1 April 2016	**9,578**	**1,510**	**2,232**	**(15,598)**	**(2,278)**
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 recognized 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
Balance as at 31 March 2017	**17,229**	**1,877**	**2,332**	**554,009**	**575,447**
Loss for the year	-	-	-	(9,918)	(9,918)
Other comprehensive income	-	-	-	422	422
Total comprehensive income	-	-	-	(9,496)	(9,496)
Share issue net of costs – debt settlement	241	-	-	-	241
Share issue net of costs - private placement	2,790	-	-	-	2,790
Issue of options	-	487	-	-	487
Fair value of options exercised	-	(431)	-	324	(107)
Options expired	-	(1,058)	1,058	-	-
Option subscription monies received	2,532	-	-	-	2,532
Total transactions with owners recognised directly in equity	5,563	(1,002)	1,058	324	5,943
Balance as at 31 March 2018	**22,792**	**875**	**3,390**	**544,837**	**571,894**

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

The notes on pages 32 to 77 form part of the Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

		Financial year ended	
		31 March 2018	31 March 2017
OPERATING ACTIVITIES	Note	**CAD $'000**	**CAD $'000**
(Loss)/profit for the year before taxation		(9,918)	571,741
Shares issued for services		241	280
Shares issued for accrued interest		-	234
Options/warrants charge	15	487	-
Gain on sale of marketable securities		-	(4)
Foreign exchange		129	1,780
Gain on conversion of convertible notes		-	(658)
Fair value adjustment on derivative liability	18	-	236
Depletion and depreciation	9	2,221	1,299
Gain on business combination	10	-	(578,995)
Impairment of property, plant and equipment	9	-	2,985
Other expense		-	290
Finance expense	7	789	220
Change in working capital	12	5,621	(867)
Net cash outflows from operating activities		**(430)**	**(1,459)**
INVESTING ACTIVITIES			
Proceeds on sale of marketable securities		-	11
Cash on disposal of subsidiary		-	1
Purchase of property, plant and equipment	9	(5,971)	(413)
Net cash flows used in from investing activities		**(5,971)**	**(401)**
FINANCING ACTIVITIES	25		
Repayment of notes payable		-	(105)
Proceeds from issue of shares, net of transaction costs		2,790	6,338
Proceeds from exercise of options		2,532	100
Fair value of options exercised		(107)	-
Decretion of bonds		(5)	-
Repayments of loans	16	(369)	(1,322)
Proceeds from loans	16	133	699
Net cash flows generated from financing activities		**4,974**	**5,710**
Net cashflow from discontinued operations	10	**-**	**(59)**
Net (decrease)/increase in cash and cash equivalents		(1,427)	3,791
Foreign exchange effect on cash held in foreign currencies		-	(5)
Cash and cash equivalents at beginning of year		**3,924**	**138**
Cash and cash equivalents at end of year		**2,497**	**3,924**

The notes on pages 32 to 77 form part of the Financial Statements

Notes to the financial statements

1. Corporate and Group 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 and is domiciled in Canada. The address of the Group's registered office is 20th Floor, 250 Howe Street, Vancounver, BC. VC6 3R8, Canada and its business address is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Group is primarily involved in the international development of energy production assets in Azerbaijan, where it operates the largest onshore oilfield in the country; in Italy, where the Group has a well-balanced portfolio of production and exploration assets producing natural gas, natural gas condensate and electricity; and formerly in Argentina, where Zenith's operational activities were divested effective February 19, 2017.

The Company's website is www.zenithenergy.ca.

Zenith is a public company with dual listing on the Toronto Stock Exchange Venture under the ticker symbol, "**ZEE**", and on the Main Market of the London Stock Exchange under the ticker "**ZEN**".

2. Basis of preparation

The consolidated financial statements presented in this document have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the EU and IFRS as issued by the IASB.

The financial statements have been prepared under the historical cost convention 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), Dubai and British Virgin Islands (including Azerbaijan operations), Euros ("**EUR**") for the subsidiary in Italy, Sterling ("**GBP**") for the subsidiary in the United Kingdom 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.

Going concern

These financial statements have been prepared on a going concern basis which presumes that the Group will continue its operations in the normal course of business for the foreseeable future. In accordance with the terms of the Rehabilitation, Exploration, Development and Production Sharing Agreement ("REDPSA") with the State Oil Company of the Republic of Azerbaijan ("SOCAR"), the Group has an obligation to achieve certain production levels within two years from the date of SOCAR's approval of the Rehabilitation and Production Programme. The Group is required to increase production levels from the 2015 average daily production of approximately 310 STB per day by 1.5 times for a period of 90 consecutive days, that is 465 STB per day. Failure to meet the required production levels would result in a material breach of the REDPSA and may result in the termination of the REDPSA and any costs incurred by the Group with respect to the contract area since inception would not be recoverable.

A draft Rehabilitation and Production Programme was submitted to SOCAR on 16 March 2017 and approved on 3 October 2017. The Group is currently operating at an average of 300 STB per day and therefore has not yet reached the required production. The Directors believe that the future planned well workovers and drilling programme will enable the Group to reach the required level of production in the future.

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. In forming this opinion the Directors have considered the cash flow forecasts prepared by management and fund raises completed post year end. The cashflow forecasts include the capital expenses in respect of well workovers and drilling which the Group believe will be covered by a combination of funding generated by operations and the funds raised post year end. In addition, the Directors are confident that the additional funds required in order to meet the capital and development expenditure, as set out by the CPR, outside of the formal going concern period will be raised as required. No arrangments or agreements in this respect have currently been conducted.

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 financial statements.

New standards and interpretations not yet adopted

a. 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 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

standard / interpretation	
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised losses
IAS 7 (amendments)	Disclosure Initiative
Annual Improvements to IFRSs: 2014-2016 Cycle	Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IAS 28 Investments in Associates

b. 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
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual Improvements to IFRSs: 2015-2017 Cycle	Amendments to: IFRS 3 Business combinations, IFRS 11 Joint Arrangments, IAS 12 Income taxes and IAS 23 Borrowing costs	1 January 2019
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, in particular IFRS 9, 15 and IFRS 16 will have a material impact on the financial statements of the Group in future periods.

3. Significant accounting policies

Consolidation

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

Name	*Country of incorporation and place of business*	*Proportion of ownership interest*	*Principal activity*
Canoel Italia S.r.l. (1)	Genova, Italy	98.6%	Gas, electricity and condensate 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 (2)	British Virgin Islands	80% owned subsidiary of Zenith Aran Oil Company Limited	Oil production
Altasol SA	Switzerland	100%	Oil trading
Zenith Energy (O&G) Ltd	United Kingdom	100%	Administrative services
Zena Drilling Limited (3)	Incorporated in Dubai, UAE Place of business in Azerbaijan	100%	Oil and gas drilling

(1) Zenith Energy Ltd has 100% over Canoel Italia S.r.l. The Group granted 1.4% to the Director managing the Italian subsidiary in order to limit the risk of any liability to that entity. Therefore, no non-controlling interest arises from the consolidation of this subsidiary.

(2) 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 abiliy 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.

(3) Zena is a 100% beneficially owned subsidiary of the Company. Zena was incorporated by Andrea Cattaneo as a fiduciary service for the Company and the shares in Zena are currently registered in the name of Mr Andrea Cattaneo as trustee for the Company. The process of transferring the shares to the name of the Company is underway but is not expected to complete until later in December 2018. The Directors consider that despite the legal ownership, the Group controls Zena by virtue of the following:

- The management and employees of Zenith Energy Limited direct the relevant activities of Zena;
- Zena has a registered branch in Azerbaijan in which the state recognises Zenith Energy Ltd as the owner; and
- Zena's sole purpose is as a service company of the Group and therefore the Group has the ability to use its power to affect the returns of Zena.

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 accounting policies used by them, with those used by the Group.

The following entities have not been consolidated within the Group's financial statements:

Name	*Country of incorporation and place of business*	*Proportion of ownership interest*	*Principal activity*
Leonardo Energy Consulting S.r.l.	Genova, Italy	48%	Dormant

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.

Property, plant and equipment

Development and production expenditures

Development and production ("D&P") assets include costs incurred in developing commercial reserves 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 and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of an item of property 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 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 and equipment and work-overs of property 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.

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 unwinding of discount and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the unwinding of discount is recognised as finance costs. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Cash and cash equivalents

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 producing 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.

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:

Trade and other receivables, trade and other payables, loans and notes 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.

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 of 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.

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 23 (b).

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, which is determined 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 Directors or employees the consolidated statement of comprehensive income is charged with the fair value of the related goods or services 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 of 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 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 recognised when the production is delivered to the customer;
- The electricity sale is recognised when it is generated and passed through to the grid.

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.

Finance expense

Finance expense is comprised of interest on debt, accretion of the decommissioning obligation, accretion of convertible notes and other miscellaneous interest charges.

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.

4. Critical accounting estimates and judgements

Estimates and 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.

The Group makes estimates and assumptions about the future. The relating accounting estimates will by definition, seldom equal to related achieved result. The estimates and judgements that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Property, plant and equipment
Management reviews the Group's property, plant and equipment annually 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 estimates having regard to past experience and the known characteristics of the individual assets, reserves and future production, which are discussed further on note 9. The carrying value of property, plant and equipment as at 31 March 2018 was CAD $1,077,445k (2017 – CAD $1,072,933k). It is also dependent on the Group being able to meet the CPR stated capital expenditure to ensure estimated cashflows are met and this is dependent on the availability of funding. It is also dependent on the Group being able to meet the production rate required by the REDPSA to ensure good title to the Azeri asset remains.

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.

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. The engineers issue a Competent's Person Report ("CPR") and the latest version was published on the Company's website (www.zenithenergy.ca) on 21 May 2018. 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 judgement and interpretation.

Compensatory oil

The Group have a contractual obligation, 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, reflect this part of production that has to be delivered to Socar, valued at the estimated production price of US$20 per barrel. The production price per barrel has been estimated on historical basis, based on the production costs per barrel of the former ownership of the concession (SOCAR). The carrying value of the compensatory oil provision as at 31 March 2018 is CAD $5,444k (2017 – CAD $5,877k).

Decommissioning costs

Most of these 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 20. The carrying value of the decommissioning costs as at 31 March 2018 is CAD $9,140k (2017 – CAD $7,980k).

Consolidation of Zena Drilling Limited

Zena was incorporated by Andrea Cattaneo as a fiduciary service for the Company and the shares in Zena are currently registered in the name of Mr Andrea Cattaneo as trustee for the Company. Due to the process of incorporation in RAKFTZ, this was the most efficient method of establishment and due to the UAE not being a signatory to The Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents, the process of transferring legal ownership to Zenith is elongated and is not expected to be completed until later in 2018. The financial statements Group include the assets, liabilities and results of Zena as the Directors consider the Group to control the operations and assets of the entity.

5. Administrative expenses

Administrative expenses are composed of the following:

	Year ended 31 March	
	2018	2017
	CAD $'000	CAD $'000
Professional fees	**1,968**	**1,884**
Auditors remuneration - audit fees Group	110	84
Auditors remuneration - audit fees Subsidiaries	45	-
Legal fees	507	311
Accountancy fee	123	147
Consultancy	1,135	814
Other fees	48	528
Office	**273**	**291**
Office rental	208	116
Other expenses	65	175
Administrative	**1,159**	**319**
Administrative services	232	125
Taxes	12	5
Other expenses	915	189
Salaries and benefits	**2,182**	**864**
Consulting fees	62	173
Salaries	1,353	324
Share based payments	487	367
Other expenses	280	-
Travel	**548**	**945**
Other expenses	**74**	**3**
Foreign exchange	**563**	**(151)**
TOTAL	6,767	4,155

6. Staff cost

(a) *Employee compensation cost*

During the year the Group had an average of 206 (2017: 212) full time employees based in its offices in London in the UK, Baku in Azerbaijan and Genoa in Italy.

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

	2018	2017
	CAD $'000	CAD $'000
Operating	2,424	1,275
General and administrative	2,182	864
Total employee compensation cost	4,606	2,139

(b) *Key management compensation*

The following table summarises annual compensation and long-term compensation of the Group's "Named Executive Officers" (as defined by Form 51-102F6) for the three most recently completed financial years that ended on 31 March 2018. The named executive officers equate to key management personnel:

Name and principal position	Year[2]	Short term employee benefit CAD $'000	Other short term benefits CAD $'000	Other long term benefits CAD $'000	Share based payments CAD $'000	Other benefits CAD $'000	Total CAD $'000
Andrea Cattaneo [1-2]	2016	303	-	-	-	-	303
	2017	224	-	-	-	-	224
	2018	685	-		56	36	777
Luigi Regis Milano [3]	2016	59	-	-	-	-	59
	2017	29	-	-	-	-	29
	2018	63	-	-	-	18	81
Jose Ramon Lopez-Portillo	2016	-	-	-	-	-	-
	2017	-	-	-	-	-	-
	2018	-	-	-	-	-	-
Dario Sodero[4]	2016	-	-	-	-	-	-
	2017	15	-	-	-	-	15
	2018	8	-	-	-	-	8
Erik Larre	2016	-	-	-	-	-	-
	2017	-	-	-	-	-	-
	2018	-	-	-	-	-	-
Saadallah Al-Fathi	2017	-	-	-	-	-	-
	2018	-	-	-	-	-	-
Luca [6] Benedetto	2018	152	-	-	42	-	194
Alan Hume[5]	2017	138	-	-	-	-	138
	2018	24	-	-	-	-	53

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 £210k (CAD $380k), payable in equal monthly instalments, plus benefits for the year ended 31 March 2018. Mr Cattaneo has agreed to swap his full salary for new Common Shares ("Salary

Sacrifice Shares"), with effect from 1 April 2017. The new Common Shares are issued on a quarterly basis at a price that is the highest of: (i) the average price at which the Common Shares traded during the period, based on the mid-market closing price on the London Stock Exchange on each trading day, plus 15 per cent, and (ii) the discounted market price on the TSXV at the time the Salary Sacrifice Shares are issued. Under TSXV rules, the Company may not issue Salary Sacrifice Shares above the value of CAD$2,500.00 each month, without independent Shareholder approval which was obtained at the annual general meeting held on 30 March 2018. For the first 3 quarters of the financial year to 31 March 2018, a total of 111,131 Common Shares have been issued under this arrangement. On May 4, 2018 Mr. Cattaneo fully swapped his salary for the 2018 financial year in exchange for common shares in Zenith. As a result the Company issued Mr Andrea Cattaneo 1,123,068 common shares in the capital of the Company at an average price of CAD$0.165 (approximately £0.094) for the period from April 1, 2017 until March 31, 2018. The amount of the Salary Sacrifice Shares was calculated based on Mr Cattaneo's salary as at April 1, 2017.

2. Andrea Cattaneo had an yearly compensation of CAD$200k from the parent Company, CAD$ 105k from subsidiary undertakings, and CAD$36k as Director fee compensation, for the year ended March 31, 2018
3. Luigi Regis Milano had an yearly compensation of CAD$ 63k from subsidiary undertakings, and CAD$18k as Director fee compensation, for the year ended March 31, 2018
4. In the year ending March 31, 2018, Mr. Sodero received a fee for professional consulting services of approximately CAD$8k.
5. Mr. Alan Hume served as Chief Financial Officer from September 2016 to April 2017.
6. Mr. Luca Benedetto was appointed as Chief Financial Officer from April 2017

7. Finance expense

	2018 CAD $'000	2017 CAD $'000
Interest expense	423	472
Accretion of decommissioning obligation	371	98
Accretion of convertible notes	-	39
Decretion of bonds	(5)	24
Net finance expense from continuing operations	**789**	**633**

8. Taxation

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

	2018 CAD $'000	2017 CAD $'000
Current tax	-	-
Deferred tax	-	-
Total tax (credit) / charge for the year	-	-

	2018 CAD $'000	2017 CAD $'000
(Loss)/profit before taxation	(9,918)	571,741
Expected tax at 27%	(2,678)	154,370
Non-assesable income	-	(156,328)
Differences on tax rates attributable to other jurisdictions	259	246
Non-deductible expenses	-	16
Temporary differences	83	-
Tax losses carried forward	2,344	1,696
Under(over)provided in prior years	(8)	-
Tax (credit) / charge	-	-

The tax (credit) / charge for the year ended 31 March 2018 comprised CAD $Nil (2017 – CAD $Nil) of current tax expense and CAD $Nil deferred tax reduction (2017 – CAD $Nil deferred tax reduction).

Recognised deferred tax liabilities are attributable to the following:

	2018 CAD $'000	2017 CAD $'000
Property and equipment	(2,554)	(2,554)
Decommissioning obligation	47	47
Non-capital loss carryforwards	109	109
Recognised deferred tax liabilities	2,398	2,398

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:

	2018 CAD $'000	2017 CAD $'000
Non-capital loss carryforwards	27,923	18,513
Share issuance costs	282	382
Capital losses	3,409	3,409
Other	104	-
Unrecognised deferred tax assets	31,718	22,304

As at 31 March 2018, the Group has accumulated non-capital losses in Canada totaling CAD $22,327k (2017 - CAD $18,198k) which expire in varying amounts between 2028 and 2037, CAD $578k (2017 – CAD $400k) of non-capital losses in Italy, CAD $4,964k (2017 – CAD $nil) of non-capital losses in Azerbaijan and CAD $54k (2017 – CAD $nil) of non-capital losses in Switzerland.

9. Property, plant and equipment

	D&P Assets CAD $'000
Carrying amount at 31 March 2016	**14,598**
Additions	413
Acquired in business combination (note 10)	1,065,346
Disposals	(3,542)
Depletion and depreciation	(1,299)
Impairment	(2,985)
Decommissioning obligation	617
Compensatory oil delivered	(87)
Foreign exchange differences	(128)
Carrying amount at 31 March 2017	**1,072,933**
Additions	6,026
Disposals	(55)
Depletion and depreciation	(2,221)
Compensatory oil delivered	(271)
Foreign exchange differences	1,033
Carrying amount at 31 March 2018	**1,077,445**

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 19.

As at 31 March 2018 and 2017, the Group identified certain business risks related to its Italian and Azerbaijan CGUs, 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 2018 and 2017 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% (2017 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at 31 March 2018 and 2017. The estimated recoverable amount of the Italian CGU at 31 March 2018 was higher than its carrying amount, therefore, no impairment was recognized in the year ended 31 March 2018 (2017 – impairment of CAD $2,985,000) in the consolidated statement of comprehensive income.

The estimated fair value less costs to sell of the Azerbaijan CGU was based on 10% (2017 – 10%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at 31 March 2018. The estimated recoverable amount of the Azerbaijan CGU at 31 March 2018 was higher than its carrying amount, therefore, no impairment was recognised in the year ended 31 March 2018 (2017 - CAD $nil) in the consolidated statement of comprehensive income. The headroom between the calculated value in use and the carrying amount is sensitive to changes in the discount rate used. A 0.3% increase in the discount rate would eliminate the headroom and therefore any increase in the discount rate above 0.3% would result in an impairment.

A decrease of more than 2.5% in the estimated fair value of the reserves in the Azerbaijan CGU would lead to the recognition on an impairment, whereas in the Italian CGU the decrease should be more than 23% for an impairment to be recognized. 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.

10. Business combinations

Azerbaijan

On March 16, 2016, the Group's wholly-owned subsidiary, Zenith Aran Oil Company Limited, 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 Company 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.

The acquisition of Assets has been brought to account as a business combination using the acquisition method of accounting and resulted in a bargain purchase arising as follows:

Fair value of net assets acquired as at 31 March 2017

	CAD$'000
Development and production assets	1,065,346
Compensatory oil*	(5,963)
Capital costs*	(478,598)
Decommissioning obligations*	(1,790)
Gain on business combination	**578,995**
Taxation	-
Net NPV of the assets	**578,995**

* 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.

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-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

	2018 CAD $'000	2017 CAD $'000
Revenue net of royalties	-	71
Operating expenses	-	(583)
Transportation expenses	-	(2)
General and administrative expenses	-	(264)
Depreciation and impairment expenses	-	(13)
Foreign exchange	-	107
Finance expense	-	(106)
Loss on disposal of discontinued operations	-	(3,573)
(Loss)/profit for the year	-	(4,363)

Earnings per share from discontinued operations

	2018	2017
Basic and diluted profit / (loss) per share	-	$(0.01)

Statement of cash flows

	2018 $'000	2017 $'000
Operating activities	-	(390)
Investing activities	-	-
Financing activities	-	331
Net cash from discontinued operations	-	(59)

(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
Net inflow received on disposal of discontinued operations	4

Net assets disposed of (other than cash)	-
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)

11. Inventory

As at 31 March 2018, inventory consists of CAD $6k (2017 – CAD $43k) of crude oil that has been produced but not yet sold, and CAD $170k of materials (2017 – CAD $95k) . The amount of inventory recognised in the statement of comprehensive income is CAD $39k.

	2018		2017	
	Barrels	**CAD $'000**	**Barrels**	**CAD $'000**
Azerbaijan	104	6	272	43
Azerbaijan - materials	-	165	-	95
Italy	-	6	-	-
	104	**177**	**272**	**138**

12. Change in working capital

	2018	2017
	CAD $'000	**CAD $'000**
Trade and other receivables	238	(877)
Inventory	39	36
Prepaid expenses	(30)	327
Prepaid property and equipment insurance	40	(205)
Trade and other payables	(5,908)	(324)
Change in working capital from continuing operations	(5,621)	(1,043)
Working capital on disposal of subsidiaries	-	176
Total change in working capital	(5,621)	(867)

13. Other financial assets

Upon the change of ownership of the assets acquired in Italy in the year 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 (2017 – CAD $nil) has been recognised as an expense. The outstanding balance of CAD $441k (2017 - CAD $401k) 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 not to expense the monthly installment on the prepaid insurance, waiting for the rimbursement promised by the State of Romania, where the insurance company was based.

14. Share Capital

Zenith is authorised to issue an unlimited number of Common Shares, of which 43,221,468 were issued at no par value and fully paid during the year ended 31 March 2018 (2017 – Total Common Shares in issue: 115,577,230). All Common Shares have the right to vote and the right to receive dividends. 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 this Document. The Directors of the Company may by resolution fix the rights, privileges, restrictions and conditions of the preferred shares of each series.

Zenith currently has 153,200,119 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange. The above figure may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or change to their interest in, the share capital of the Company under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. A further announcement will be made closer to Admission in relation to the Total Voting Rights of the Company's common shares admitted to trading on the Main Market of the London Stock Exchange.

The Group's ordinary shares are all fully paid and have not been allocated a par value.

Issued	**Number of common shares**	**Amount CAD $'000**
Balance – 31 March 2016	**43,594,406**	**9,578**
Non-brokered unit private placement (i)	6,674,775	534
Finder's fee	- -	27
Non-brokered unit private placement (ii)	3,892,875	311
Finder's fee	- -	15
Conversion of convertible notes (iii)	2,730,000	300
Settlement of debt (iii)	312,500	31
Non-brokered unit private placement (iv)	1,519,250	122
Finder's fee	- -	6
Balance – 30 September 2016	**58,723,806**	**10,828**
Non-brokered unit private placement (v)	1,906,050	191
Finder's fee	- -	10
Settlement of debt (vi)	1,049,235	88
Non-brokered unit private placement (vii)	2,745,062	329
Finder's fee	- -	4
Settlement of debt (viii)	150,000	12
Admission LSE placement (ix)	33,322,143	3,783
Fair value of warrants issued	- -	77
Finder's fee	- -	200
Settlement of debt (x)	668,571	78
Non-brokered unit private placement (xi)	9,000,000	1,399
Finder's fee	- -	70
Conversion of convertible notes (xii)	3,700,000	407
Settlement of debt (xiii)	505,263	72
Conversion of convertible notes (xiv)	1,637,100	164
Conversion of convertible notes (xv)	2,170,000	239

Balance – 31 March 2017	**115,577,230**	**17,229**
Exercise of stock option (xvi)	1,000,000	-
Exercise of warrants (xvii)	1,019,250	153
Balance – 30 June 2017	**117,596,480**	**17,382**
Non-brokered unit private placement (xviii)	3,533,333	438
Finder's fee	-	- 22
Non-brokered unit private placement (xix)	2,666,667	328
Finder's fee	-	- 16
Non-brokered unit private placement (xx)	666,666	82
Finder's fee	-	- 4
Non-brokered unit private placement (xxi)	3,600,000	404
Finder's fee	-	- 20
Exercise of stock option (xxii)	1,000,000	100
Settlement of debt (xxiii)	111,131	17
Balance – 30 September 2017	**129,174,277**	**18,689**
Exercise of warrants (xxiv)	2,049,775	307
Exercise of warrants (xxv)	1,257,875	189
Exercise of warrants (xxvi)	1,306,050	261
Exercise of warrants (xxvii)	500,000	75
Exercise of warrants (xxviii)	1,612,142	322
Exercise of warrants (xxix)	3,150,000	473
Exercise of stock option (xxx)	2,000,000	200
Exercise of warrants (xxxi)	400,000	80
Exercise of stock option (xxxii)	1,000,000	150
Exercise of stock option (xxxiii)	1,650,000	202
Exercise of warrants (xxxiii)	100,000	20
Balance – 31 December 2017	**144,200,119**	**20,968**
Non-brokered unit private placement (xxxiv)	4,000,000	500
Non-brokered unit private placement (xxxv)	9,000,000	1,158
Finder's fee		- 58
Settlement of debt (xxxvi)	1,598,579	224
Balance – 31 March 2018	**158,798,698**	**22,792**

i) 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.

ii) 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 warrats to certain arm's-length parties in the connection with the Private Placement.

iii) 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 and 312,500 shares at a price of $0.10 per share creditors of the Corporation to settle debts owing by the Group totalling $31k.

iv) 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.

v) 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.

vi) 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.

vii) 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.

viii) 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.

ix) 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.

x) 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).

xi) 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.

xii) 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 2018, stating that the conversion mechanism requires a conversion price of CDN$ 0.11 (£0.0677).

xiii) 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.

xiv) On March 21, 2017 Gunsynd PLC has 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.

xv) 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).

xvi) On May 25, 2017 the Group announced that, following 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.

xvii) On June 29, 2017 an investor in the Group exercised warrants to acquire 1,019,250 new common shares of no par value in the capital of the Group. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received CAD$153k (approximately £91k).

xviii) On July 14, 2017, the Group closed a non-brokered private placement of 3,533,333 Common Shares at a price of CAD $0.123956 per unit for aggregate gross proceeds of CAD $438k (approximately £265k). The Group also paid aggregate finders' fees of CAD$22k (approximately £13k).

xix) On August 2, 2017, the Group completed a non-brokered private placement of 2,666,667 Common Shares at a price of CAD $0.1230606 per unit for aggregate gross proceeds of CAD $328k (approximately £200k). The Group also paid aggregate finders' fees of CAD$16k (approximately £10k).

The proceeds of this Private Placement fund Zenith's acquisition of oil production equipment and provide general working capital.

xx) On August 2, 2017, the Group completed a non-brokered private placement of 666,666 Common Shares at a price of CAD$0.1230606 per unit for aggregate gross proceeds of CAD $82k (approximately £50k). The Group also paid aggregate finders' fees of CAD$4k (approximately £2.5k). The proceeds of this Private Placement fund the Group's acquisition of oil production equipment and provide general working capital

xxi) On September 11, 2017, the Group closed a non-brokered private placement of 3,600,000 Common Shares at a price of CAD$0.11 per unit for aggregate gross proceeds of CAD$404k (approximately £252k). The Group also paid aggregate finders' fees of CAD$20k (approximately £13k).

The proceeds of this Private Placement were used to fund Zenith's transformational oil production operations in Azerbaijan.

xxii) On September 27, 2017 the Group announced that a Director of Zenith had exercised part of his stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$100,000 (approximately £60k).

xxiii) On September 28, 2017 the Group announced that a Director of the Company, in accordance with TSX Venture Exchange rules, had swapped part of his salary for the first two quarters of the 2018 financial year for the equivalent of CAD$2.5K per months, for a total of CAD$15k (approximately £9k). As a result, the Director will receive 111,131 common shares in the capital of the Company at an average price of approximately CAD$0.14 for the period April 1, 2017 until December 31, 2017.

xxiv) On October 12, 2017 an investor in the Company exercised warrants to acquire 2,049,775 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$307k (approximately £186k).

xxv) On October 19, 2017 an investor in the Company exercised warrants to acquire 1,257,875 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$189k (approximately £114k).

xxvi) On October 23, 2017 an investor in the Company has exercised warrants to acquire 1,306,050 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.20 per share, and the total consideration received was CAD$261k (approximately £160k).

xxvii) On November 2, 2017 an investor in the Company exercised warrants to acquire 500,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$75k (approximately £44k).

xxviii) On November 8, 2017 an investor in the Company exercised warrants to acquire 1,612,142 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.20 per share, and the total consideration received CAD$322k (approximately £195k).

xxix) On November 22, 2017 an investor in the Company exercised warrants to acquire 3,150,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received CAD$473k (approximately £284k).

xxx) On November 23, 2017 a Director of the Company exercised stock options to acquire 2,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.10 per share, and the total consideration received CAD$200k (approximately £118k).

xxxi) On December 11, 2017 an investor in the Company exercised warrants to acquire 400,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.20 per share, and the total consideration received CAD$80k (approximately £47k).

xxxii) On December 15, 2017 a Director of the Company exercised stock options to acquire 1,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received CAD$150k (approximately £87k).

xxxiii) On December 18, 2017 the Company announced that a Director of the Company had exercised stock options to acquire 500,000 new common shares of no par value in the capital of the Company at an exercise price of CAD$0.10 per stock option (approximately £0.06) at a total cost of CAD$50,000 (£30k).

The Company also announced that the Chief Financial Officer of the Company had exercised stock options to acquire a total of 1,150,000 new common shares of no par value in the capital of the Company. 400,000 of the new common shares had an exercise price of CAD$0.10 per new share (approximately £0.0583). The remaining 750,000 new common shares had an exercise price of CAD£0.15 (approximately £0.0874). The total consideration for the Chief Financial Officer's exercise of stock options was CAD$152,000 (approximately £91k).

The Company also announced on December 18, 2017 that an investor in the Company had exercised warrants to acquire 100,000 new common shares of no par value in the capital of the Company. The exercise price per warrant was CAD$0.20 per share, and the total consideration received was CAD$20k (£12k).

xxxiv) On January 10, 2018 the Company closed a private placement to raise gross proceeds of CAD$500k (approximately £297k) through the issue of 4,000,000 new common shares of no par value in the capital of the Company at a price of CAD$0.125 (approximately £0.0742) per new common share with Canadian investors. The proceeds of the private placement have been allocated for the purchase of equipment to develop the Company's oil production operations in Azerbaijan. The Company also paid finder's fees for £3k (approximately CAD$5k).

xxxv) On January 24, 2018 the Company completed a placing in the UK (the "**Placing**") to raise gross proceeds of £678k (approximately CAD$1,158k) by issuing 9,000,000 common shares of no par value in the capital of the Company (the "**New Common Shares**") at a price of £0.0742 (approximately CAD$0.1287) per New Common Share. The Company also paid finder's fees for £34k (approximately CAD$58k) and under the terms of the Placing, the broker was issued 180,000 warrants in the Company, priced at £0.0925, with an expiry date of two years from Admission.

The New Common Shares were offered by the Company's broker to certain investors, principally UK institutions, at the same sterling equivalent price as the Canadian Placing. The Placing garnered considerable interest, with the Company receiving offers for subscription three times in excess of the maximum 9,000,000 New Common Shares that the Company was able to offer to UK investors, in compliance with Standard list regulations.

The Company intends to use the proceeds of the Placing to finance its continued investment in its Azerbaijan field operations and for general working capital.

xxxvi) On January 24, 2018 the Company agreed to issue 1,598,579 common shares at a deemed price of CAD$0.14 to settle a debt of US$180,000 owing by the Company.

15. Warrants and options

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD $'000
Balance – 31 March 2016	-	**29,638,898**	**0.23**	**1,510**
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 excercised	(1,000,000)	-	0.10	-
Balance – 31 March 2017	**5,000,000**	**56,995,908**	**0.21**	**1,877**
Options issued	2,750,000	-	0.12	217
Options issued	2,000,000	-	0.13	258
Warrant issued	-	180,000	0.07	12
Warrants excercised	-	(1,019,250)	-	-
Options excercised	(3,900,000)	-	0.10	(226)
Options excercised	(1,750,000)	-	0.12	(98)
Warrants excercised	-	(10,375,842)	0.25	(107)
Warrants expired	-	(2,349,320)	0.15	(76)
Warrants expired	-	(16,403,852)	0.25	(982)
Balance – 31 March 2018	**4,100,000**	**27,027,644**	**0.19**	**875**

Type	Grant Date	Number of options	Exercise price per unit CAD$	Expiry Date
Stock options	November 2016	**1,100,000**	0.10	November 2021
Stock options	May 2017	**1,000,000**	0.15	May 2022
Stock options	November 2017	**2,000,000**	0.18	November 2022
	TOTAL	**4,100,000**		

Options

The Company has a stock options plan (the "**Plan**") for its 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 in the consolidated statements of income (loss) and comprehensive income (loss). Share options expire five years from the date of granting.

As at March 31, 2018, the Group had 4,100,000 stock options outstanding (relating to 4,100,000 shares) and exercisable at a weighted average exercise price shown on the table above per share with a weighted average life remaining of 4.26 years.

The fair value of the options was calculated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	100%
Expected life	5 years
Dividends	Nil

Granting of options

On November 18, 2016, the Company granted options to certain of its Directors and employees to acquire a total of 6,000,000 Common Shares pursuant to its Stock Options Plan. Each option granted entitles the relevant holder to acquire one common share for an exercise price of CAD$0.10 per Common Share.

The expiry date of the options is the date falling five years from the date of grant, being 18 November 2021.

The Stock Options Plan was approved by shareholders of the Company at the last AGM held on January 20, 2017.

On February 22, 2017, the Company announced that a Director of the Company had exercised stock options to acquire a total of 1,000,000 common shares in the capital of the Company at a price of CAD$0.10 per common share and a total cost of CAD$100k.

On May 17, 2017, Zenith granted additional options to certain of its Directors and employees to acquire a total of 2,750,000 common shares in accordance with Zenith's Stock Options Plan. Each stock option 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.

On November 29, 2017 the Company granted additional options to certain of its Directors and employees to acquire a total of 2,000,000 common shares in accordance with Zenith's Stock Options Plan. Each stock option entitles the relevant holder to acquire one common share for an exercise price of CAD$0.175 per common share. The expiry date of the options is the date falling five years from the date of grant, being November 29, 2022.

Exercise of options

On May 25, 2017, the Company announced that following Zenith's announcement of February 22, 2017 that a Director of the Company had exercised stock options to acquire 1,000,000 new Common Shares in the capital of the Company, the option shares were issued on May 23, 2017 following confirmation by the Director of the custodian to whom they should be issued.

- During the year ended March 31, 2018, Directors and Senior Mangement of the Company exercised their stock options to purchase common shares in the capital of the Company as follows: On September 27, 2017 exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$100,000 (£60k);

- On November 23, 2017 exercised stock options to purchase 2,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$200,000 (£118k);
- On December 15, 2017 exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.15 per Common Share and a total cost of CAD$150,000 (£87k).
- On December 18, 2017 the Company announced that a Director of the Company had exercised stock options to acquire 500,000 new common shares of no par value in the capital of the Company at an exercise price of CAD$0.10 per stock option (approximately £0.06) at a total cost of CAD$50,000 (£30k).
- On December 18, 2017 the Company announced that the Chief Financial Officer of the Company had exercised stock options to acquire a total of 1,150,000 new common shares of no par value in the capital of the Company. 400,000 of the new common shares had an exercise price of CAD$0.10 per new share (approximately £0.0583). The remaining 750,000 new common shares had an exercise price of CAD$0.15 (approximately £0.0874). The total consideration for the Chief Financial Officer's exercise of stock options was CAD$152,000 (approximately £91k).

Warrants

Type	Grant Date	Number of Warrants	Exercise Price per unit CAD$	Expiry Date
Warrants	Apr 2015	**1,417,500**	0.25	April 2018
Warrants	May 2015	**390,000**	0.25	May 2018
Warrants	September 2015	**1,350,000**	0.25	September 2018
Warrants	November 2015	**4,214,125**	0.25	November 2018
Warrants	April 2016	**8,128,813**	0.15	April 2018
Warrants	June 2016	**500,000**	0.20	June 2018
Warrants	November 2016	**732,920**	0.20	November 2018
Warrants	January 2017	**1,114,286**	0.11	January 2019
Warrants	January 2017	**9,000,000**	0.24	January 2019
Warrants	January 2018	**180,000**	0.17	January 2020
	TOTAL	**27,027,644**		

As at March 31, 2018, the Group had 27,027,644 warrants outstanding (relating to 27,027,644 shares) and exercisable at a weighted average exercise price of CAD$0.21 per share with a weighted average life remaining of 0.52 years.

7,805,438 warrants expired during April 2018, at an exercise price of CAD$0.15 per warrant and 1,417,500 warrants expired during May 2018, at an exercise price of CAD$0.25 per warrant.

On April 5, 2018 the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "Options"), in accordance with the Company's Stock Option Plan on April 3, 2018. A total of 9,500,000 Options have been granted to directors and persons discharging managerial responsibility ("PDMRs"). Further details of the Options awarded to directors and PDMRs are outlined below. The exercise price of the Options is equivalent to the Company's TSXV closing price of March 26, 2018, being CAD$0.12 (approximately £0.067). The Options are fully vested and have the duration of five years from the date of granting.

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 fair value of the warrants was calculated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	75-100%
Expected life	2 years
Dividends	Nil

16. Loans

Loans	2018 CAD $'000	2017 CAD $'000
Loan payable - current	237	973
Loan payable – non-current	4,949	4,527
Total	**5,186**	**5,500**

Loans

Loans – current	2018 CAD $'000	2017 CAD $'000
As at 1 April	973	3,210
Loan receipt	-	1,106
Transfer to non-current	(367)	(1,576)
Repayments	(369)	(1,829)
Foreign exchange	-	62
As at 31 March	**237**	**973**

Loans – non current	2018 CAD $'000	2017 CAD $'000
As at 1 April	4,527	674
Loan receipt	133	2,277
Transfer from current	367	1,576
Foreign exchange	(78)	-
As at 31 March	**4,949**	**4,527**

a) USD loan payable

As at March 31, 2018, the Group was indebted to a third party lender for a USD$1,485k (CAD$1,914k) loan payable, bearing fixed interest at 10% per annum.

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 and the final payment of approximately

USD$1,485k. On January 10, 2018, the parties amended the repayment terms: the final payment of approximately USD$1,485 is now repayable on July 31, 2019.

As at March 31, 2018, CAD$1,914k (March 31, 2017 – CAD$1,978k) of principal is classified as a non-current liability and CAD$538k (March 31, 2017 – CAD$329k) 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$349k) 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, 2018 the principal balance of the loan was €117k (CAD$186k) of which CAD$50k is classified as a current liability and CAD$136k is classified as long-term.

c) Euro bank debt

On December 17, 2015, the Group obtained a €200k loan (CAD$318k) 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.

As at March 31, 2018 the principal balance of the loan was €80k (CAD$127k) of which CAD$90k is classified as a current liability and CAD$37k is classified as long-term.

d) Euro loan payable

On October 1, 2015, the Group acquired a co-generation plant from a third party of which €401k (CAD$637k) 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, 2018, the principal balance of the loan was €14k (CAD$22k) of which CAD$22k is classified as a current liability.

e) USD $320,000 General line of credit agreement

On April 05, 2017, the Group's wholly-owned subsidiary, Zenith Aran Oil Company Limited, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("Rabitabank") up to an amount of USD $320k (CAD $416), for industrial and production purposes. The loan drawn down in one tranche and as at 06 April 2017 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 11% per annum. The loan is guaranteed by the Group. The loan granted for one year period. The 25% of the principal amount should be paid on quarterly basis. The amount of interest to be paid on monthly basis.

On July 06, 2017, the terms of the repayment of the USD$320k (CAD$416k) credit agreement were amended and the first repayment of the principal of USD$80k was postponded to the end of July.

On July 31, 2017 USD$20k (CAD$21k) was repaid and the balance of USD$60k (CAD$63k) was agreed to be repaid on September 1, 2017. A subsequent credit committee decision taken in September 2017 amended the payment terms of the loan. The Company will pay interest on a monthly basis and the principal total amount of USD$20k has been paid on December 6, 2017. The balance of the principal amount (USD$280k) will be repaid at a new maturity date of April 6, 2019.

As of March 31, 2018 the outstanding principal amount is USD$280k (CAD$360k) and it is classified as a non-current liability.

f) USD $200,000 General line of credit agreement

On 12 April 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to USD$200k (CAD$260,000). This Credit Agreement bears interest at a rate of 10% per annum. The loan was granted for one-year period and the principal amount of the loan will be paid at the end of the period. The amount of interest is repayable monthly. The loan is guaranteed by the Group. In March 2018, the repayment of the principal amount (USD$200k) was extended by 15 months until 12 July 2019. The interest is payable on a monthly basis and the principal amount will be paid in five quarterly installments of 40 000 USD.

As of 31 March 2018, the amount of USD$200k (CAD$255) was classified as a current liability for USD$160k (CAD$206), and as a non-current liability for USD$40k (CAD$49).

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) and the maturity date is July 7, 2022.

As at March 31, 2018 the principal balance of the loan was CHF737k (CAD$ 994k) of which CAD $67k is classified as a current liability and CAD $927k is classified as non-current liability.

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. The loan bears interest at a rate of 2.2% per annum. The loan is repayable July 02, 2019 (plus accrued interest).

As at March 31, 2018 the principal balance of the loan was CHF1,000k (CAD$ 1,342k) and is classified as a non-current liability.

17. Non convertible bonds and convertible notes

Non convertible bonds	2018 CAD $'000	2017 CAD $'000
Current	407	-
Non-current	-	385
Total	**407**	**385**

Non convertible bonds

	CAD $'000
Balance – March 31, 2016	**563**
Interest	54
Accretion	24
Conversion	(121)
Repayments	(65)
Foreign currency translation	(70)
Balance – March 31, 2017	**385**
Interest	-
Decretion	(5)
Conversion	-
Repayments	-
Foreign currency translation	27
Balance – March 31, 2018	**407**

The bonds bear interest at 12% per annum, payable quarterly, until the maturity date May 01, 2018, at which time the principal amount of bonds is repayable in full.
As of March 31, 2018 the outstanding accrued bond interest was CAD$22k.

On April 18, 2018 the Company announced the extension of the maturity date of the Series A Bond (the "Bond Extension"). The Bond Extension extends the maturity date for the Series A Bond from May 4, 2018 by six months to November 4, 2018. For the duration of the Bond Extension the interest rate of the Series A Bond has been increased to fifteen per cent per annum (15% p.a.). No further material terms will be amended in the Series A Bond or in any other document related to the 2015 Private Placement.

Furthermore, in connection with the work undertaken on the Bond Extension, Optiva Securities Limited, the Company's joint broker, will be paid a fee consisting of: (i) £10,125 in cash (CAD$18,141 at an exchange rate of 1.79167); and (ii) 93,750 common share purchase warrants ("Warrants"). The Warrants entitle the holder to acquire one common share in the capital of Zenith at an exercise price of £0.12 (approximately CAD$0.215) for the period until May 2021.

18. Fair Value Movements

	2018 CAD $'000	2017 CAD $'000
Financial assets	-	4
Convertible Notes	-	659
Derivative liability	-	(236)
Total	-	427

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 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.

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.

19. Deferred consideration payable

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, as follows:

<u>Compensatory oil</u>

The Company has an obligation, under the terms of the REDPSA, 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 REDPSA 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 finalization of the transaction the production in Azerbaijan was approximately 300 barrels per day of oil, although the field has historically produced much larger quantities (Source: SOCAR). Gas is also produced, but in low quantities and is used onsite.

The Company, 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 2018 and 2020, the Company 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 11 wells will be worked over in 2018, 15 wells in 2019 and 8 wells in 2020.

The Company's rehabilitation programme has commenced using the Company's existing A-80 workover rig, which has been fully reconditioned, and also utilizing a more powerful workover rig operated by an experienced local drilling company. Zenith intends to purchase an additional modern workover rig to enhance its field operational capabilities within the next four years and thereby reduce its reliance on external oilfield service companies.

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 Company intends to drill 3 development wells during the course of 2018 in Azerbaijan. The objective is predicated on the availability of a drilling rig.

The Company also intends to acquire one modern drilling rig capable of drilling to a depth 5,000m to carry out a fifteen-year drilling programme. It is anticipated that five new wells will be drilled in 2019, and ten wells in each year thereafter until the planned drilling programme is completed in 2033. The Company expects that a second drilling rig will be required to fulfil the aforementioned drilling programme.

During the first four years of the REDPSA it is estimated that US$2,500k 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 US$40k to US$400k per well, using the Company's 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$250k per well, and returning to an increase of production at a total of 200STBl/d.

On January 24, 2017 the Company announced the signing of a well workover contract and the engagement of an experienced local drilling company to initiate and execute the workover of the first two wells in the well workover programme (wells 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.

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 is 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.

DEFERRED CONSIDERATION PAYABLE

	March 31, 2018 CAD$'000	March 31, 2017 CAD$'000
Compensatory Oil		
Current portion	271	138
Non-Current portion	5,173	5,739
Capital costs		
Current portion	318	302
Non-Current portion	478,443	478,295
As of 31 March	**484,205**	**484,474**
Deferred condideration payable current	589	440
Deferred consideration payable non-current	483,616	484,034
Total	**484,205**	**484,474**

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 23 (b).

20. 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:

	2018 CAD $'000	2017 CAD $'000
Balance – beginning of year	**7,980**	**7,897**
Business combination	-	1,790
Writeback on disposal of subsidiaries	-	(2,215)
Measurement adjustment	-	630
Accretion	399	98
Foreign currency translation	761	(220)
Balance – end of year	**9,140**	**7,980**

The provision has been made by estimating the decommissioning cost at current prices using existing technology.
The following significant weighted average assumptions were used to estimate the decommissioning obligation:

	2018	2017
Undiscounted cash flows – uninflated	CAD $8 million	CAD $8 million
Undiscounted cash flows - inflated	CAD $8 million	CAD $8 million
Risk free rate	3.4%	3.4%
Inflation rate	1.4%	1.4%
Expected timing of cash flows	14.5 years	15.5 years

The timings of the cash flows depend on the capital expenditure incurred and the development of assets in each concession. Each concession has a license for a set number of years, however, the licenses could be extended for longer periods if the operator incurs capital expenditure and develops the area. The application process starts after a license is not extended or when the reserves of a particular concesion have been fully extracted.

21. Earning per share

		2018 CAD $'000		2017 CAD $'000
Net (loss) / profit		(9,918)		567,378
Basic weighted average number of shares		132,880		69,626
Potential dilutive effect on shares issuable under warrants		n/a		55,326
Potential diluted weighted average number of shares		n/a		124,952
Net (loss)/profit per share – basic (1)	$	(0.07)	$	8.15
Net (loss)/profit per share – diluted		(0.07)		4.54
Net (loss)/profit per share continuing operations – basic	$	(0.07)	$	8.16
Net (loss)/profit per share continuing operations – diluted		(0.07)		4.55
Net (loss) per share discontinued operations – basic and	$	-	$	(0.01)

[1] The Group did not have any in-the-money convertible notes, warrants and stock options during the years ended March 31, 2018 and 2017. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

The basic and diluted loss per share for 2017 are the same as there are no dilutive effects on earnings as the effect of the exercise of share options would be to decrease the loss per share. Details of share warrants and options that could potentially dilute earnings per share in future years are set out in Note 15.

22. 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 2018 and 2017 not disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in trade and other payables is CAD$ nil (2017 – CAD$ nil) due to a Director of the Group in respect of general and administrative expenditures made on behalf of the Group for which the director will be reimbursed.

b) Included in trade and other payables is CAD$164k (2017 – CAD$nil) due a Director of the Group in respect of salaries. Mr. Cattaneo fully swapped his salary for the 2018 financial year in exchange for common shares in Zenith. The Salary Sacrifice Shares was calculated based on Mr Cattaneo's salary as at April 1, 2017 and were issued on May 4, 2018.

c) Mr. Andrea Cattaneo, Chief Executive Officer and President of the Company, as of March 31, 2018 has granted personal bank guarentees in favour of Zenith Energy Ltd., (the "Guarantees"), currently totaling the amount of USD 2,005,336.70, as listed below:

- Surety guarantee provided on August 29, 2016 in favor of Jiu Feng Investment Hong Kong Limited for the total amount of US$2,185,336.70. In the month of February 2017 the total amount of the guarantee decreased to US$1,485,336,70, as the the Company repaid part of the debt;
- Surety guarantee provided on March 1, 2017 in favour of Rabita Bank in Azerbaijan for the total amount of USD 520,000.00 (Ref.: USD $320,000 General Line of Credit Agreement (Azerbaijan) and USD $200,000 General Line of Credit Agreement (Azerbaijan), as stated at page page 38 of the Financial Statements);

An annual compensation fee for the Guarantees is provided by the Company to Mr. Andrea Cattaneo.

d) During the year ended March 31, 2018 a Director of Zenith, Mr. Andrea Cattaneo, has exercised his stock options, to purchase common shares in the capital of the Company, as follows:

- On September 27, 2017 exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$100,000 (approximately £60k);
- On November 23, 2017 exercised stock options to purchase 2,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$200,000 (approximately £118k);
- On December 15, 2017 exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.15 per Common Share and a total cost of CAD$150,000 (approximately £87k).

e) On September 28, 2017 the Group announced that a Director of Zenith, Mr. Andrea Cattaneo, had, in accordance with TSX Venture Exchange rules, in part swapped his salary for the first two quarters of the 2018 financial year for the equivalent of CAD$2.5K per months, for a total of CAD$15k (approximately £9k). As a result, Mr. Andrea Cattaneo received 111,131 common shares in the capital of the Group at an average price of approximately CAD$0.14 per share, for the period April 1, 2017 until March 31, 2018.

f) During the year ended March 31, 2018 a Director of Zenith, Mr. Andrea Cattaneo, purchased a total amount of 3,075,000 common shares of no par value in the capital of the Company at an average price of CAD$0.14627 per common share (approximately £0.0809), and a total amount of CAD$407k (approximately£225k).

g) During the year ended March 31, 2018 a Director of Zenith, Mr. Andrea Cattaneo, sold 1,250,000 common shares of no par value in the capital of the Company and transferred a total amount of 2,868,500 common shares of no par value in the capital of the Company, to certain financial advisers for services rendered to Mr. Cattaneo

h) As of March 31, 2018 Mr. Andrea Cattaneo has a direct beneficial interest in a total of 4,595,116 common shares in the capital of the Company.

23. Financial risk management and financial instruments

	2018	2017
Financial assets	**CAD $'000**	**CAD $'000**
Loans and receivables	1,908	1,700
Cash and cash equivalents	2,497	3,924
Total financial assets	4,405	5,624

2018	**Other financial liabilities**	**Financial liabilities at FVTPL**	**Financial liabilities at amortised cost**
Financial liabilities	**CAD $'000**	**CAD $'000**	**CAD $'000**
Trade and other payables	9,238	-	-
Loans	3,874	-	1,312
Non-convertible bond	-	407	-
Deferred consideration	484,205	-	-
Total financial liabilities	13,112	484,612	1,312

2017	**Other financial liabilities**	**Financial liabilities at FVTPL**	**Financial liabilities at amortised cost**
Financial liabilities	**CAD $'000**	**CAD $'000**	**CAD $'000**
Trade and other payables	2,912	-	-
Loans	3,894	-	1,606
Non-convertible bond	-	385	-
Deferred consideration	484,474	-	-
Total financial liabilities	6,806	484,859	1,606

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

Zenith 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.

Zenith'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 2018.

Zenith'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.

Zenith's principal financial instruments are cash and deposits and these instruments are only for the purpose of meeting its requirement for operations.

Zenith'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 $2,497k (2017 – CAD $3,924k) and trade and other receivables of CAD $1,890k (2017 – CAD $1,648k).

Deposit 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:

	2018 CAD $'000	2017 CAD $'000
Oil and natural gas sales	1,623	1,544
Stamp tax and other tax withholdings	31	8
Goods and services tax	19	19
Other	212	129
	1,885	1,700

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.

The Group considers its receivables to be aged as follows:

	2018 CAD $'000	2017 CAD $'000
Current	1,761	1,499
90 + days	124	149
	1,885	1,648

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 2018, 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 2019 CAD $'000	Due on or before 31 March 2020 CAD $'000	Due after 31 March 2020 CAD $'000
Trade and other payables	9,238	9,238	9,238	-	-
Loans	5,186	5,946	283	4,682	981
Non-convertible bond	407	491	491	-	-
Deferred consideration	484,205	1,191,177	1,646	10,076	1,179,455
	499,036	1,206,852	11,658	14,758	1,180,436

c) Foreign 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 2018	Closing rate 2017	Average rate 2018	Average rate 2017
US dollars	1.2892	1.3310	1.2649	1.3125
Euro	1.5884	1.4222	1.5515	1.4401
Swiss Franc	1.3502	1.3299	1.3328	1.3299
British Pound	1.8060	1.6550	1.7588	1.7154

The following represents the estimated impact on net (loss)/income of a 10% change in the closing rates as at 31 March 2018 and 2017 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

	2018 CAD $'000	2017 CAD $'000
US dollars	62	280
Euro	16	84
Swiss Franc	235	244
British Pound	-	38
	313	646

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 2018, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the year ended 31 March 2018 of approximately CAD $7k (2017 – CAD $4k) 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 2018 of approximately CAD $29k (2017 – CAD $29k).

As at March 31, 2018, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net loss for the year ended March 31, 2018 of approximately $210k (2017 – $189k).

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.

24. 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. The Group manages its working capital deficiency, long-term debt, and shareholders' deficit as capital.

	2018 CAD $'000	2017 CAD $'000
Working (deficiency)/capital	(5,889)	1,437
Long-term debt	4,949	4,912
Shareholders' equity	572,912	575,447

The Group's cash flows from its Azerbaijan and Italian operations will be needed in the near term to finance the operations and repay vendor loans. Zenith's principal source of funds will therefore remain the issuance of equity. 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 on the Group's ability to continue as a going concern. The Group is not subject to any externally imposed capital requirements.

25. Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2018 CAD $'000	2017 CAD $'000
Cash and cash equivalents	2,497	3,924
Loans – repayable within one year	(237)	(973)
Loans – repayable after one year	(4,949)	(4,527)
Non-convertible bond – repayable within one year	(407)	-
Non-convertible bond – repayable after one year	-	(385)
	(3,096)	(1,961)

	Cash	Loans due within one year	Loans due after one year	Non-convertible bond due within one year	Non-convertible bond due after one year	Total
Net debt	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
31 March 2016	**138**	**(3,210)**	**(674)**	**(697)**	**(921)**	**(5,364)**
Issue of new loans/Accretion	3,591	(1,106)	(2,277)	(130)	(78)	-
Repayment of loans/conversion	(3,171)	1829	-	798	544	-
Transfer from current to non-current	-	1,576	(1,576)	-	-	-
Foreign exchange		(62)		29	70	37
Net cash flow	3,366					3,366
31 March 2017	**3,924**	**(973)**	**(4,527)**	-	**(385)**	**(1,961)**

	Cash	Loans due within one year	Loans due after one year	Non-convertible bond due within one year	Non-convertible bond due after one year	Total
Net debt	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
31 March 2017	**3,924**	**(973)**	**(4,527)**	-	**(385)**	**(1,961)**
Issue of new loans/Accretion	138		(133)		(5)	-
Repayment of loans/conversion	(369)	369	-			-
Transfer from current to non-current	-	367	(367)	(390)	390	-
Foreign exchange			78	(17)		61
Net cash flow	(1,196)					(1,196)
31 March 2018	**2,497**	**(237)**	**(4,949)**	**(407)**	-	**(3,096)**

26. 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;
- Azerbaijan, which was acquired during the 2018 financial year; and,
- Other, which includes corporate assets and the operations in the Canadian, Swiss and US entities.

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	-	3,771	653	-	4,424
Royalties	-	-	-	-	(7)
Operating and transportation	-	(2,699)	(334)	-	(3,616)
General and Administrative	-	(894)	(274)	(3,139)	(4,573)
Depletion and depreciation	-	(1,113)	(185)	-	(1,309)
Impairment of property and equipment	-	-	(2,985)	-	(2,987)
Other income (expense)	-	578,988	1	579	579,675
Finance and other expenses	-	(38)	(143)	(449)	(736)
Loss on disposal	(790)	-	-	(3,572)	(3,572)
Segment (loss)/ income	**(790)**	**578,016**	**(3,267)**	**(6,581)**	**567,378**

YEAR 2018	Azerbaijan CAD $000	Italy CAD $000	Other CAD $000	Total CAD $000
Property and equipment	1,066,089	9,194	2,162	1,077,445
Other assets	1,446	805	2,772	5,023
Total liabilities	493,669	8,588	8,317	510,574
Capital Expenditures	3,727	87	2,157	5,971
Revenue	4,190	737	92	5,019
Operating and transportation	(4,758)	(398)	(4)	(5,160)
General and Administrative	(1,264)	(436)	(5,067)	(6,767)
Depletion and depreciation	(1,636)	(585)	-	(2,221)
Finance and other expenses	(66)	(404)	(319)	(789)
Segment (loss)/ income	**(3,534)**	**(1,086)**	**(5,298)**	**(9,918)**

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

		2018	2017
		CAD $000	CAD $000
Customer A		4,190	3,772
Customer B		599	-

The amount of revenue from continuing operations for year is CAD $5,019,000 (2017 – CAD $4,353,000) and the amount of revenue from discontinued operations for the year is CAD $nil (2017 – CAD $71,000).

27. Controlling party

At as of the end of the financial year ending 31 March 2018, the Directors do not consider there to be a controlling party.

28. Events subsequent to the year end

a) On April 5, 2018 the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "Options"), in accordance with the Company's Stock Option Plan on April 3, 2018. A total of 9,500,000 Options have been granted to directors and persons discharging managerial responsibility ("PDMRs"). Further details of the Options awarded to directors and PDMRs are outlined below. The exercise price of the Options is equivalent to the Company's TSXV closing price of March 26, 2018, being CAD$0.12 (approximately £0.067). The Options are fully vested and have a duration of five years from the date of granting.

b) On April 5, 2018 the Company entered into a five-month non-convertible loan agreement for the total amount of £230,000. The loan has a repayment schedule of five instalments commencing on May 6, 2018 with an interest rate of 7.5 percent and can be settled at any time without penalty. The first instalment was duly repaid by the Company.
Mr Andrea Cattaneo has agreed to act as a third-party guarantor in support of the Company by pledging a total of 3,571,428 common shares in the Company, in which he has a direct beneficial interest, as collateral to the lender.

c) On April 13, 2018, the Company announced the termination of the exclusivity agreement (the "Agreement") for the acquisition of various production and exploration licences located in a Central Asian country, communicated to the market on January 12, 2018.

   The Agreement has been terminated by the Company because it has not received the required financial information from the vendor for the due diligence process to be successfully completed.

d) On April 18, 2018 the Company announced the extension of the maturity date of the Series A Bond (the "Bond Extension"). The Bond Extension extends the maturity date for the Series A Bond from May 4, 2018 by six months to November 4, 2018. For the duration of the Bond Extension the interest rate of the Series A Bond has been increased to fifteen per cent per annum (15% p.a.). No further material terms will be amended in the Series A Bond or in any other document related to the 2015 Private Placement.

   Furthermore, in connection with the work undertaken on the Bond Extension, Optiva Securities Limited, the Company's joint broker, will be paid a fee consisting of: (i) £10,125 in cash (CAD$18,141 at an exchange rate of 1.79167); and (ii) 93,750 common share purchase warrants ("Warrants"). The Warrants entitle the holder to acquire one common share in the capital of Zenith at an exercise price of £0.12 (approximately CAD$0.215) for the period until May 2021.

e) On May 4, 2018 Mr. Cattaneo fully swapped his salary for the 2018 financial year in exchange for common shares in Zenith. As a result the Company issued Mr Andrea Cattaneo 1,123,068 common shares in the capital of the Company at an average price of CAD$0.165 (approximately £0.094) for the period from April 1, 2017 until March 31, 2018. The amount of the Salary Sacrifice Shares was calculated based on Mr Cattaneo's salary as at April 1, 2017.

f) On May 25, 2018 the Company to announced that it has signed a two-year non-convertible loan facility, (the "Facility"), for a total amount of up to US$2,000,000 on May 24, 2018.

   The Facility will be used to provide additional funding for the Company's operations when required. It will be drawn down in tranches, with each tranche being payable four months from the drawdown date. It can be settled at any time without penalty and has no warrants attached.

g) On June 6, 2018, the Company announced that its oilfield service company subsidiary, Zena Drilling Limited, ("Zena"), has signed a six-month rental agreement with B Robotics W S.r.l., ("Robotics"), a leading Italian drilling rig manufacturer, for a BD-260 type Robotics drilling rig.

   Zena has contracted the BD-260 drilling rig in order to complete the Company's planned workover and drilling activities in the Zardab and Muradkhanli fields during the six-month period.

   Transportation of the BD-260 rig from one operation to the next in the Zardab field is expected to be relatively fast on account of the proximity of the Z-21, Z-28 and Z-3 well locations.

   Robotics has advised the Company that the BD-260 will be delivered to its field operations in Azerbaijan within 90 days. Under the rental agreement signed with Zena, Robotics has agreed to provide its highly experienced drilling personnel for the first month of operations to assist Zenith's field team.

h) On 21 June 2018, the Company announced that it has raised gross proceeds totalling, in aggregate, £2,166,898 through the successful Placing, Subscription and PrimaryBid Offer.

   As a result of the Placing, Subscription and PrimaryBid Offer the Company will issue a total of 54,172,451 new common shares, (the "New Common Shares").

   Application has been made to the UK Listing Authority for the New Common Shares and the 6,721,647 Admission Shares (as defined in the prospectus dated 20 June 2018) to be admitted to the standard segment of the Official List of the UKLA and to the London Stock Exchange for admission to trading on the main market for listed securities of the London Stock Exchange ("Admission"). The New Common Shares and the Admission Shares will rank pari passu in all respects with the Company's existing Common Shares and it is expected that Admission will become effective and that dealings in the New Common Shares and the Admission Shares will commence on or around 8.00 a.m. on 26 June 2018. An application will also be made for the New Common Shares to be listed on the TSX Venture Exchange.

   The enlarged issued share capital following Admission will be 214,094,217 common shares and the New Common Shares will comprise approximately 25.3 per cent. of the enlarged issued share capital on Admission.