Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Condensed Interim Consolidated Financial Statements

December 31, 2014

(unaudited)

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these December 31, 2014 unaudited condensed interim consolidated financial statements.

Managements' Responsibility

To the Shareholders of Zenith Energy Ltd.:

The accompanying December 31, 2014 unaudited condensed interim consolidated financial statements of Zenith Energy Ltd. (the "Company") have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the Company. The unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on currently available information.

(signed)"Andrea Cattaneo"
President and Chief Executive Officer

(Signed)"Luigi Regis Milano"
Chief Financial Officer

February 27, 2015

Calgary, Alberta

Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Expressed in Canadian dollars)

	Note	**December 31 2014 $**	March 31 2014 $
ASSETS			
Current assets			
Cash		1,225,703	711,248
Marketable securities	4	50,706	378,460
Trade and other receivables	18	1,450,873	1,215,913
Inventory		-	48,397
Prepaid expenses		549,833	251,714
		3,277,115	2,605,732
Non-current assets			
Property and equipment	5	19,547,478	20,937,438
Prepaid property and equipment insurance		391,210	549,497
Total assets		23,215,803	24,092,667
LIABILITIES			
Current liabilities			
Trade and other payables	18	2,537,826	2,474,178
Oil share agreement		918,979	875,727
Note payable	6	139,838	374,068
Loan payable	7	1,189,103	1,888,221
Convertible notes	8	-	1,265,789
Derivative liability	8	-	1,101
		4,785,746	6,879,084
Non-current liabilities			
Loan payable	7	1,189,102	377,644
Convertible notes	8	539,031	-
Derivative liability	8	163,437	-
Decommissioning obligation	9	12,686,573	13,392,936
Deferred taxes		1,206,633	1,206,633
Total liabilities		20,570,522	21,856,297
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	10	8,234,332	7,151,893
Warrants	11	1,312,917	487,257
Contributed surplus		1,890,683	1,744,326
Accumulated other comprehensive loss		(1,696,763)	(1,442,635)
Deficit		(7,095,888)	(5,704,471)
Total shareholders' equity (deficit)		2,645,281	2,236,370
Total liabilities and shareholders' equity (deficit)		23,215,803	24,092,667

Going concern (Note 1)

Subsequent event (Note 19)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Condensed Interim Consolidated Statements of Loss and Comprehensive loss

(Unaudited)

(Expressed in Canadian dollars)

	Note	Three months ended December 31		Nine months ended December 31	
		2014	2013	**2014**	2013
		$	$	$	$
Revenue					
Oil and gas revenue		1,486,291	1,056,941	3,722,430	3,091,773
Royalties		(117,040)	(109,547)	(270,477)	(354,845)
		1,369,251	947,394	3,451,953	2,736,928
Other revenue		-	(160,970)	-	-
		1,369,251	786,424	3,451,953	2,736,928
Expenses					
Operating		478,346	427,731	1,514,367	1,279,014
Transportation		19,888	13,966	45,943	39,467
General and administrative		456,851	435,778	1,746,456	1,499,460
Foreign exchange		1,860	200,560	19,215	367,143
Loss on sale of marketable securities	4	24,255	-	135,910	-
Fair value adjustment on marketable securities	4	9,684	-	142,844	-
Loss on conversion of convertible notes	8	-	-	82,434	-
Fair value adjustment on derivative liability	8	(35,965)	(255)	(428,605)	(51,887)
Depletion and depreciation		211,047	167,716	596,077	395,161
		1,165,966	1,245,496	3,854,641	3,528,358
Income (loss) from operations		203,285	(459,072)	(402,688)	(791,430)
Finance income	14	-	-	-	126,120
Finance expense	14	(382,817)	(245,986)	(988,729)	(735,824)
Net finance expense		(382,817)	(245,986)	(988,729)	(609,704)
Net loss		(179,532)	(705,058)	(1,391,417)	(1,401,134)
Exchange differences on translation on foreign operations		(92,167)	(387,754)	(254,128)	(746,516)
Comprehensive loss		(271,699)	(1,092,812)	(1,645,545)	(2,147,650)
Net loss per share					
Basic and diluted	13	(0.01)	(0.08)	(0.07)	(0.17)
Weighted average shares outstanding					
Basic and diluted	13	22,538,668	8,938,429	19,063,110	8,466,611

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(Expressed in Canadian dollars)

		For the nine months ended December 31	
		2014	2013
	Note	$	$
Share capital	10		
Balance - beginning of period		7,151,893	6,556,260
Unit private placement,net of issue costs		1,514,793	117,819
Fair value of warrants		(972,017)	(93,000)
Conversion of convertible notes		539,663	-
Balance - end of period		8,234,332	6,581,079
Warrants	11		
Balance - beginning of period		487,257	1,231,069
Fair value of warrants		972,017	93,000
Expiry of warrants		(146,357)	(399,603)
Balance - end of period		1,312,917	924,466
Contributed surplus			
Balance - beginning of period		1,744,326	907,514
Expiry of warrants		146,357	399,603
Balance - end of period		1,890,683	1,307,117
Accumulated other comprehensive loss			
Balance - beginning of period		(1,442,635)	(880,286)
Exchange differences on translation of foreign operations		(254,128)	(358,762)
Balance - end of period		(1,696,763)	(1,239,048)
Deficit			
Balance - beginning of period		(5,704,471)	(9,913,714)
Net income (loss)		(1,391,417)	(696,076)
Balance - end of period		(7,095,888)	(10,609,790)
Total equity		2,645,281	(3,036,176)

Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Condensed Interim Consolidated Statements of Cashflows

(Unaudited)

(Expressed in Canadian dollars)

		Nine months ended December 31	
		2014	2013
	Note	$	$
Operating activities			
Net loss		(1,391,417)	(1,401,134)
Items not involving cash:			
Loss on sale of marketable securities		135,910	-
Fair value adjustment on marketable securities		142,844	-
Loss on conversion of convertible notes		82,434	-
Fair value adjustment on derivative liability		(428,605)	(51,887)
Share based compensation		-	-
Depletion and depreciation		596,077	395,161
Royalties on oil share agreement		-	126,183
Finance expense		705,339	480,953
Reclassification between operating expense and property and equipment		-	23,077
		(157,418)	(427,647)
Foreign exchange on translation		178,427	53,334
Change in non-cash working capital	16	(401,090)	(477,812)
		(380,081)	(852,125)
Financing activaties			
Repayment of notes payable		(375,784)	-
Proceeds from issue of share capital, net of share issue costs		1,514,793	217,348
Change in non-cash working capital	16	-	-
		1,139,009	217,348
Investing activities			
Proceeds on sale of marketable securities		55,981	-
Cash received on business combination, net of cash paid		-	1,843,450
Expenditures on property and equipment		(375,491)	(95,570)
Prepaid property and equipment insurance		-	(577,558)
Change in non-cash working capital	16	106,224	142,266
		(213,287)	1,312,588
Change in cash		545,642	677,811
Foreign exchange effect on cash held in foreign currencies		(31,187)	(40,147)
Cash, beginning of period		711,248	346,541
Cash, end of period		1,225,703	984,205

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1. Nature of operations and going concern

Zenith Energy Ltd. ("Zenith" or the "Company"), formerly Canoel International Energy Ltd., was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The address of the Company's registered office is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Company is primarily involved in the exploration for, development of and production of oil and natural gas properties primarily in Argentina and Italy.

As at December 31, 2014, the Company has a working capital deficit of $1,508,631 (March 31, 2014 – $4,273,352) and an accumulated deficit of $7,095,888 (March 31, 2014 – $5,704,471) since its inception, and may incur future losses in the development of its business. Current cash resources will not be sufficient to continue the exploration and development activities. These matters raise significant doubt about the ability of the Company to continue to meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and maintain future profitable operations in Argentina and Italy. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

During the nine months ended December 31, 2014, the Company extended the maturity date of the loan payable to June 1, 2016 (Note 7), converted $539,663 principal amount of convertible notes to common shares and extended the maturity date to January 11, 2016 (Note 8) and issued a total of 11,043,137 units at $0.15 per unit for gross proceeds of $1,656,471 (Note 10).

These consolidated financial statements have been prepared on the basis of the going concern assumption that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these consolidated financial statements, and that the Company will be able to continue its business activities. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then the adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

2. Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standard 34 – Interim Financial Reporting. The Company has consistently applied the same accounting policies throughout all periods presented except as noted below (Note 3). These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation's annual filings for the year ended March 31, 2014.

(Expressed in Canadian dollars)

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

Entity	Registered	Holding
Zenith Energy Ltd.	Canada	Parent
Ingenieria Petrolera del Rio de la Plata SRL	Argentina	100%
Ingenieria Petrolera Patagonia SRL ("IPP")	US	100%
Canoel Italia SRL	Italy	100%
Petrolera Patagonia Corporation ("PPC")	US	100% owned subsidiary of IPP
PP Holding Inc. ("PPH")	US	100% owned subsidiary of IPP
Petrolera Patagonia SRL	Argentina	95% owned subsidiary of PPC and 5% held by PPH

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2015.

3. Changes in accounting policies

As disclosed in the Company's March 31, 2014 audited consolidated financial statements, on April 1, 2014, the Company adopted the new standard IFRIC 21 Levies as well as amendments to IAS 24 Related Party Disclosures, IAS 32 Financial Instruments: Presentation, IAS 36 Impairment of Assets, IAS 39 Financial Instruments: Recognition and Measurement. The adoption of these standards and amendments had no impact on the amounts recorded or disclosures included in the unaudited condensed interim consolidated financial statements as at and for the three and nine months ended December 31, 2014.

4. Marketable securities

As at March 31, 2014, the Company held 222,000 common shares of an unrelated party, Global Resources Investment Trust plc ("GRIT") with a fair value of £205,350 (CAD $378,460).

During the nine months ended December 31, 2014, the Company sold a total of 105,087 GRIT shares for proceeds of $55,981 and recognized a $135,910 loss on the sale of marketable securities in the consolidated statement of loss and comprehensive loss.

As at December 31, 2014, the Company held 116,913 GRIT shares with a fair value of £37,997 (CAD $69,070). During the three and nine months ended December 31, 2014, the Company recognized a loss on the fair value of the marketable securities of $9,684 and $142,844, respectively and a gain on foreign exchange of $12,828 and $6,981, respectively, in relation to the GRIT shares in the consolidated statement of loss and comprehensive loss.

(Expressed in Canadian dollars)

5. Property and equipment

	D&P assets	Furniture & fixtures	Total
Cost			
Balance – March 31, 2014	$ 22,314,572	$ 80,634	$ 22,395,206
Additions	375,491	–	375,491
Decommissioning obligation revisions	111,863	–	111,863
Foreign currency translation	(1,320,103)	(526)	(1,320,629)
Balance – December 31, 2014	21,481,823	80,108	21,561,931
Accumulated depletion and depreciation			
Balance – March 31, 2014	$ (1,407,921)	$ (49,847)	$ (1,457,768)
Depletion and depreciation	(591,597)	(4,480)	(596,077)
Foreign currency translation	39,191	201	39,392
Balance – December 31, 2014	(1,960,327)	(54,126)	(2,014,453)
Carrying amount			
March 31, 2014	$ 20,906,651	$ 30,787	$ 20,937,438
December 31, 2014	$ 19,521,496	$ 25,982	$ 19,547,478

The depletion calculation for the three and nine months ended December 31, 2014 included estimated future development costs of $4.2 million for proved and probable reserves (March 31, 2014 – $4.0 million).

The Company did not identify any indicators of impairment at December 31, 2014.

6. Notes payable

As at December 31, 2014, the Company had US$89,300 (March 31, 2014 – US$340,000) of notes payable outstanding secured by a mortgage on the oil and natural gas properties in Argentina and bearing interest at a fixed rate of interest of 11%.

As at December 31, 2014, the balance of notes payable is $139,838 including accrued interest (March 31, 2014 – $374,068).

7. Loan payable

As at March 31, 2014 and December 31, 2014, the Company had loan payable in the principal amount of US$2,050,000 due to a private lender with the following terms as amended on July 30, 2014 where noted:

- Maturity date of June 1, 2015, amended to June 1, 2016;
- Interest rate of 10% per annum, calculated yearly and payable in monthly installments on the last day of each month;
- Interest only payments for the first 12 months, then equal monthly installments of principal and interest until June 1, 2015 amended to require all accrued and unpaid interest up to June 1, 2015 paid in full by June 1, 2015, then equal monthly installments of principal and interest until June 1, 2016;
- Conversion of the loan to bonds and the issuance of 500,000 warrants to the lender exercisable at $1.00 per share until June 1, 2015, subject to approval by the TSX Venture Exchange, for which the estimated

(Expressed in Canadian dollars)

fair value of the conversion feature is negligible; and

- Distribution of certain net profits to the lender, as defined in the amended loan agreement, related to the sale of all or part of the Company's assets and operations in Argentina.
- Pledge of the shares of the Company's wholly owned subsidiary Ingenieria Petrolera Patagonia SRL as security for the loan payable.

As at December 31, 2014, $1,189,103 (March 31, 2014 – $1,888,221) of principal is classified as a current liability; $1,189,102 (March 31, 2014 – $377,644) of principal is classified as long-term and $216,506 (March 31, 2014 – $131,285) of accrued interest is included in traded and other payables.

8. Convertible notes

	Face value $	Debt component $	Derivative liability $
Balance – March 31, 2014	1,350,169	1,265,789	1,101
Modification	–	(693,362)	693,362
Conversion	(539,663)	(331,808)	(102,421)
Change in fair value	–	–	(428,605)
Accretion	–	362,840	–
Foreign exchange	(86,630)	(64,428)	–
Balance – December 31, 2014	723,876	539,031	163,437

As at March 31, 2014, the Company held $1,080,000 Swiss Francs (CAD$1,350,169) of unsecured convertible notes bearing interest at a simple interest rate of 9% per annum, payable in arrears in equal quarterly installments commencing April 11, 2012 and maturing on January 11, 2015.

At any time prior to maturity and at the option of the note holder, the principal and any unpaid interest of a note may be converted into common shares of the Company at a price of CAD$1.50 per share.

On August 21, 2014, the Company reduced the conversion price to CAD$0.215 per share. The effect of the conversion price reduction has been accounted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be $564,645 on the date of the modification.

On September 12, 2014, $460,000 Swiss Francs (CAD$539,663) of convertible notes were converted into 2,510,058 common shares and $23,000 of accrued and unpaid interest forgiven resulting in the recognition of a $82,434 loss on conversion of convertible notes in the consolidated statement of loss and comprehensive loss.

On December 12, 2014, the Company extended the maturity date of the convertible notes to January 11, 2016. The effect of the extension has been counted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be $128,717 on the date of modification.

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

	August 21, 2014	December 12, 2014	December 31, 2014
Risk free interest rate	1.07%	1.01%	1.01%
Expected life	0.32 years	1.08 years	1.03 years
Expected volatility	100%	100%	100%

Interest is accrued and presented in trade and other payables in the amount of $194,967 as at December 31, 2014 (March 31, 2014 – $156,865).

(Expressed in Canadian dollars)

9. Decommissioning obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's oil and gas properties:

Balance – March 31, 2014	$	13,392,936
Accretion		322,008
Change in estimate		111,863
Foreign currency translation		(1,140,234)
Balance – December 31, 2014	$	12,686,573

The change in estimate relates primarily to the increase in the estimated inflation rate of Argentina which increased from 13.5% at March 31, 2014 to 25% at December 31, 2014. The following significant weighted average assumptions were used to estimate the decommissioning obligation:

Undiscounted cash flows	$278 million
Risk free rate	24.8%
Inflation rate	19.9%
Weighted average expected timing of cash flows	17 years

10. Share capital

	Number of common shares	Amount $
Balance – March 31, 2014	11,252,039	7,151,893
Unit private placements (a)	11,043,137	1,656,471
Fair value of warrants (a)	–	(919,720)
Conversion of convertible notes (b)	2,510,058	539,663
Share issue costs	–	(316,403)
Balance – December 31, 2014	24,805,234	8,111,904

(a) Unit private placement

During the nine months ended, the Company issued a total of 11,043,137 units at $0.15 per unit for gross proceeds of $1,656,471. Each unit is comprised of one common share and one warrant exercisable at $0.25 per share for a period of 36 months from the date of issuance. In connection with the unit private placement, the Company incurred $45,850 of issuance costs, paid finder's fees of $95,828 and issued 606,456 finder's warrants exercisable at $0.25 for a period of 36 months from the date of issuance.

Officers and directors subscribed for an aggregate of 1,383,332 units for gross proceeds of $207,500.

The fair value of the warrants was estimated at $919,720 ($0.083 per warrant) and the fair value of the finder's warrants was estimated at $48,080 ($0.086 per warrant) using the Black-Scholes pricing model and the following significant weighted average assumptions:

Volatility	75%
Risk-free rate	1.11%
Expected life	3 years

(Expressed in Canadian dollars)

(b) Conversion of convertible notes

On September 12, 2014, the Company converted $539,663 principal amount of convertible notes into 2,510,058 common shares at a conversion price of CAD$0.215 per share as disclosed in Note 8.

11. Warrants

	Number of warrants	Amount $	Weighted average exercise price
Balance – March 31, 2014	2,628,367	487,257	$ 0.87
Unit private placements (Note 10)	11,043,137	919,720	0.25
Finder's fees (Note 10)	606,456	52,297	0.25
Expired	(685,700)	(146,357)	(5.00)
Balance – December 31, 2014	13,592,260	1,312,917	$ 0.31

Information about warrants outstanding and exercisable as at December 31, 2014 is as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price
$ 0.25	12,474,593	2.42	$ 0.25
$ 1.00	1,117,667	0.14	1.00
	13,592,260	2.23	$ 0.31

12. Stock options

As at March 31, 2014, the Company had 214,000 stock options outstanding and exercisable. During the nine months ended December 31, 2014, 32,000 stock options expired, reducing the number of stock options outstanding and exercisable as at December 31, 2014 to 182,000. Information about stock options outstanding as at December 31, 2014 is as follows:

Exercise price	Number of options	Weighted average remaining life (years)	Weighted average exercise price
$ 1.00	175,000	0.94	$ 1.00
$ 1.70	7,000	0.10	1.70
	182,000	0.90	$ 1.03

(Expressed in Canadian dollars)

13. Per share amounts

	Three months ended December 31		Nine months ended December 31	
	2014	2013	**2014**	2013
	$	$	**$**	$
Net loss	(179,532)	(705,058)	(1,391,417)	(1,401,134)
Weighted average number of shares – basic:				
Issued common shares as at April 1	11,252,039	8,188,429	11,252,039	8,188,429
Effect of common shares issued during the period	11,286,629	751,000	7,811,071	278,182
	22,538,668	8,939,429	19,063,110	8,466,611
Net loss per share – basic and diluted (1)	(0.01)	(0.08)	(0.07)	(0.17)

(1) The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

14. Finance income and expense

	Three months ended December 31		Nine months ended December 31	
	2014	2013	**2014**	2013
	$	$	**$**	$
Income:				
Recovery of loan payable interest	–	–	–	126,120
Expense:				
Interest expense	81,310	148,402	303,881	468,153
Accretion of decommissioning obligation	113,099	71,042	322,008	188,465
Accretion of convertible notes	188,408	26,542	362,840	79,206
	382,817	245,986	988,729	735,824
Net finance expense	(382,817)	(245,986)	(988,729)	(609,704)

15. Presentation of employee compensation cost

(a) Employee compensation cost

The unaudited condensed interim consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense with the exception of employee compensation cost which is included in operating and general and administrative expenses. The following table details the amounts of total employee compensation included in the statements of loss and comprehensive loss:

	Three months ended December 31		Nine months ended December 31	
	2014	2013	**2014**	2013
	$	$	**$**	$
Operating	283,250	267,062	772,580	690,171
General and administrative	161,189	29,901	453,117	262,169
Total employee compensation cost	444,439	296,963	1,225,697	952,340

(Expressed in Canadian dollars)

16. Change in non-cash working capital

For the nine months ended December 31		2014		2013
Trade and other receivables	$	(292,820)	$	(243,210)
Inventory		46,783		(66,307)
Prepaid expenses		(184,879)		(290,537)
Trade and other payables		136,050		264,508
Total change in non-cash working capital	$	(294,866)	$	(335,546)

The change in non-cash working capital has been allocated to the following activities:

For the nine months ended December 31		2014		2013
Operating	$	(401,090)	$	(477,812)
Investing		106,224		142,266
Total change in non-cash working capital	$	(294,866)	$	(335,546)

17. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. Related party transactions during the three months ended June 30, 2014 and 2013 not disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in general and administrative expenses for the three and nine months ended December 31, 2014 is $53,528 and $185,824 (three and nine months ended December 31, 2013 – $49,094 and $132,632), respectively, charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at December 31, 2014, $nil (March 31, 2014 – $nil) was included in trade and other payables in respect of these charges.

b) Included in interest expense for the three and nine months ended December 31, 2014 is $nil and $2,466 (three and nine months ended December 31, 2013 – $1,319 and $3,803), respectively, on $50,000 Swiss Francs of convertible notes held by company controlled by a director of the Company, of which $nil is included in trade and other payables as at December 31, 2014 (March 31, 2014 – $12,515). These notes were converted to common shares and the related accrued and unpaid interest forgiven on September 12, 2014.

c) Included in trade and other payables is $30,934 (March 31, 2014 – $13,803) due to an officer and director of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officer and director will be reimbursed.

18. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

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 Company's maximum credit risk exposure is limited to the December 31, 2014 carrying amount cash of $1,225,703 (March 31, 2014 – $711,248) and trade and other receivables of $1,450,873 (March 31, 2014 – $1,215,913).

(Expressed in Canadian dollars)

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

		December 31 2014		March 31 2014
Oil and natural gas sales	$	557,848	$	909,525
Stamp tax and other tax withholdings		403,225		235,953
Goods and services tax		10,686		10,861
Other		479,114		59,574
	$	1,450,873	$	1,215,913

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 Company considers its receivables to be aged as follows:

		December 31 2014		March 31 2014
Current	$	1,012,302	$	933,343
90 + days		438,571		282,570
	$	1,450,873	$	1,215,913

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company'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 Company's reputation.

As at December 31, 2014, the Company had $4,785,746 (March 31, 2014 – $6,879,084) of current liabilities for which the Company's $1,225,703 (March 31, 2014 – $711,248) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company.

As of December 31, 2014, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

		Carrying amount	Contractual cashflows	Due within 12 months	Due on or before June 1 2016
Trade and other payables	$	2,537,826	2,537,826	2,537,826	–
Oil share agreement		918,979	918,979	918,979	–
Notes payable		139,838	139,838	139,838	–
Loan payable		2,378,205	2,715,715	1,308,013	1,407,702
Convertible note		539,031	790,988	790,988	790,988
	$	6,513,879	7,103,346	4,904,656	2,198,690

(Expressed in Canadian dollars)

c) Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net loss income or the value of financial instruments.

i) Currency risk

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

	Closing rate		Average rate	
	December 31	March 31	Nine months ended December 31	
	2014	2014	2014	2013
ARS	0.1371	0.1380	0.1334	0.1851
US dollars	1.1601	1.1055	1.1049	1.0369
Euro	1.4038	1.5227	1.4523	1.3800
Swiss Franc	1.1675	1.2501	1.1985	1.1207

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at December 31, 2014 and 2013 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	Three months ended December 31		Nine months ended December 31	
	2014	2013	**2014**	2013
	$	$	**$**	$
US Dollars	15,200	116,860	273,250	172,860
Swiss Franc	58,350	71,990	91,880	143,640

i) 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 December 31, 2014, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the three and nine months ended December 31, 2014 of approximately $16,600 and $42,200, respectively (three and nine months ended December 31, 2013 – $11,460 and $35,000, respectively).

Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. As at December 31, 2014, a 5% change in the price of oil would represent a change in net loss for the three and nine months ended December 31, 2014 of approximately $46,500 and $130,400, respectively (three and nine months ended December 31, 2013 – approximately $39,200 and $114,600, respectively).

ii) 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 Company has fixed interest on notes payable (Note 6), loan payable (Note 7) and convertible notes (Note 8).

19. Subsequent event

In January and February 2015, the Company, subject to regulatory approval, completed a non-brokered private placement of 4,754,259 units at a price of $0.15 per unit for gross proceeds of $673,027. Each unit is comprised of one common share and one warrant exercisable at $0.25 per share for a period of 36 months from the date of issuance. In connection with the private placement, the Company will pay aggregate finder's fees of $40,112 and grant an aggregate of 267,412 finder's warrants. An officer and director of the Company subscribed for 333,333 units through a related company he controls.

(Expressed in Canadian dollars)

20. Operating segments

The Company's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Company's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Company's management. The Company has three reportable segments which are as follows:

- Argentina;
- Italy; and
- Other, which includes corporate assets and the operations in the Canadian and US entities. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2014 or 2013.

		December 31, 2014				March 31, 2014			
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Property and equipment	$	6,350,889	13,196,589	-	19,547,478	3,267,138	17,670,300	-	20,937,438
Other assets	$	1,404,905	1,726,846	536,574	3,668,325	1,047,784	1,627,287	480,158	3,155,229
Total liabilities	$	8,576,280	8,030,250	3,963,992	20,570,522	5,380,166	11,803,204	4,672,927	21,856,297
Capital expenditures	$	(165,571)	(209,920)	-	(375,491)	(7,069)	(325,048)	-	(332,117)

		Three months ended December 31							
		2014	2013	2014	2013	2014	2013	2014	2013
		Argentina		Italy		Other		Total	
Revenue	$	1,202,387	784,194	283,904	272,747	-	(160,970)	1,486,291	895,971
Royalties		117,040	79,153	-	-	-	30,394	117,040	109,547
Operating and transportation		428,115	269,672	70,119	172,025	-	-	498,234	441,697
General and administrative		65,692	83,331	112,098	67,101	279,061	285,346	456,851	435,778
Depletion and depreciation		150,298	145,302	60,749	22,414	-	-	211,047	167,716
Finance and other expenses		97,054	236,838	(1,040)	26,148	286,637	183,305	382,651	446,291
Segment income (loss)	$	344,188	(30,102)	41,978	(14,941)	(565,698)	(660,015)	(179,532)	(705,058)

		Nine months ended December 31							
		2014	2013	2014	2013	2014	2013	2014	2013
		Argentina		Italy		Other		Total	
Revenue	$	2,878,080	2,293,307	844,350	798,466	-	-	3,722,430	3,091,773
Royalties		270,477	228,662	-	-	-	126,183	270,477	354,845
Operating and transportation		1,256,065	888,597	304,245	429,884	-	-	1,560,310	1,318,481
General and administrative		371,378	304,085	355,630	167,130	1,019,448	1,028,245	1,746,456	1,499,460
Depletion and depreciation		349,396	345,279	246,681	49,882	-	-	596,077	395,161
Finance and other expenses		403,573	570,548	12,039	50,639	524,915	303,773	940,527	924,960
Segment income (loss)	$	227,191	(43,864)	(74,245)	100,931	(1,544,363)	(1,458,201)	(1,391,417)	(1,401,134)