Zenith Energy Ltd.

Condensed Interim Consolidated Financial Statements

As at and for the three and nine months ended December 31, 2015

(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 unaudited condensed interim consolidated financial statements as at and for the three and nine months ended December 31, 2015.

Managements’ Responsibility

To the Shareholders of Zenith Energy Ltd.:

The accompanying unaudited condensed interim consolidated financial statements of Zenith Energy Ltd. (the “Company”) as at and for the three and nine months ended December 31, 2015 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 29, 2016

Calgary, Alberta

Zenith Energy Ltd.

Condensed Interim Consolidated Statements of Financial Position
(unaudited)
(Expressed in Canadian dollars)

As at	Note	**December 31 2015 $**	March 31 2015 $
ASSETS			
Current assets			
Cash		169,061	936,499
Marketable securities	3	15,223	236,993
Trade and other receivables	19	906,565	713,031
Inventory		168,521	65,419
Prepaid expenses		366,451	247,384
		1,625,821	2,199,326
Non-current assets			
Property and equipment	5	18,479,612	16,693,522
Prepaid property and equipment insurance		255,067	355,407
Total assets		20,360,500	19,248,255
LIABILITIES			
Current liabilities			
Trade and other payables	19	2,531,068	2,234,573
Oil share agreement		1,096,343	1,004,690
Note payable	6	-	200,499
Loans payable	7	1,587,940	2,166,679
		5,215,351	5,606,441
Non-current liabilities			
Loans payable	7	2,402,056	433,336
Convertible notes	8	575,809	582,646
Derivative liability	8	180,543	159,322
Bonds	9	536,962	-
Decommissioning obligation	10	6,269,266	5,779,799
Deferred taxes		2,397,623	2,397,623
		12,362,259	9,352,726
Total liabilities		17,577,610	14,959,167
SHAREHOLDERS' EQUITY			
Share capital	11	9,236,486	8,686,556
Warrants	12	1,290,808	1,245,708
Contributed surplus		2,231,583	2,138,583
Accumulated other comprehensive loss		(1,898,327)	(1,810,281)
Deficit		(8,077,660)	(5,971,478)
Total shareholders' equity		2,782,890	4,289,088
Total liabilities and shareholders' equity		20,360,500	19,248,255

Going concern (Note 1)
Subsequent event (Note 20)
Segmented information (Note 21)

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

Zenith Energy Ltd.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (unaudited)

(Expressed in Canadian dollars)

		Three months ended December 31		Nine months ended December 31	
		2015	2014	**2015**	2014
	Note	$	$	$	$
Revenue					
Oil and gas revenue		271,262	1,486,291	1,803,172	3,722,430
Royalties		(7,521)	(117,040)	(115,408)	(270,477)
		263,741	1,369,251	1,687,764	3,451,953
Expenses					
Operating		459,763	478,346	1,272,597	1,514,367
Transportation		2,890	19,888	56,875	45,943
General and administrative		641,112	456,851	1,981,875	1,746,456
Transaction costs	4	35,536	-	35,536	-
Foreign exchange		(292,365)	1,860	(389,463)	19,215
Loss on sale of marketable securities		-	24,255	-	135,910
Fair value adjustment on marketable securities	3	5,058	9,684	21,552	142,844
Loss on conversion of convertible notes		-	-	-	82,434
Fair value adjustment on derivative liability	8	(26,686)	(35,965)	(209,652)	(428,605)
Depletion and depreciation		55,598	211,047	249,202	596,077
		880,906	1,165,966	3,018,522	3,854,641
Loss from operations		(617,165)	203,285	(1,330,758)	(402,688)
Finance expense	15	(272,305)	(382,817)	(775,424)	(988,729)
Net Loss		(889,470)	(179,532)	(2,106,182)	(1,391,417)
Exchange differences on translation on foreign operations		(871,655)	(92,167)	(88,046)	(254,128)
Comprehensive loss		(1,761,125)	(271,699)	(2,194,228)	(1,645,545)
Net loss per share					
Basic and diluted	14	(0.03)	(0.01)	(0.07)	(0.07)
Weighted average shares outstanding					
Basic and diluted	14	33,623,814	22,538,668	30,859,060	19,063,110

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

Zenith Energy Ltd.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

For the nine months ended December 31	Note	**2015** $	2014 $
Operating activities			
Net loss		(2,106,182)	(1,391,417)
Items not involving cash:			
Loss on sale of marketable securities		-	135,910
Fair value adjustment on marketable securities		21,552	142,844
Loss on conversion of convertible notes		-	82,434
Fair value adjustment on derivative liability		(209,652)	(428,605)
Depletion and depreciation		249,202	596,077
Finance expense		383,514	705,339
		(1,661,566)	(157,418)
Foreign exchange on translation		(398,404)	178,427
Change in non-cash working capital	17	89,666	(401,090)
		(1,970,304)	(380,081)
Financing activities			
Proceeds from issuance of bonds		517,731	-
Proceeds from bank loans, net of repayment		594,554	-
Repayment of notes payable		(204,315)	(375,784)
Proceeds from issue of share capital, net of share issue costs		637,130	1,514,793
Change in non-cash working capital	17	(30,660)	-
		1,514,440	1,139,009
Investing activities			
Proceeds on sale of marketable securities		361,926	55,981
Purchase of marketable securities		(136,568)	-
Expenditures on property and equipment		(517,993)	(375,491)
Change in non-cash working capital	17	71,772	106,224
		(220,863)	(213,287)
Change in cash		(676,727)	545,642
Foreign exchange effect on cash held in foreign currencies		(90,711)	(31,187)
Cash, beginning of period		936,499	711,248
Cash, end of period		169,061	1,225,703
Supplemental cash flow information			
Interest paid		278,597	140,249
Taxes paid		-	-

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

Zenith Energy Ltd.

Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
(Expressed in Canadian dollars)

For the nine months ended December 31	Note	**2015** $	2014 $
Share capital			
Balance - beginning of period		8,686,556	7,151,893
Unit private placement	11	637,130	1,514,793
Fair value of warrants		(87,200)	(972,017)
Conversion of convertible notes		-	539,663
Balance - end of period		9,236,486	8,234,332
Warrants	12		
Balance - beginning of period		1,245,708	487,257
Fair value of warrants		138,100	972,017
Expiry of warrants		(93,000)	(146,357)
Balance - end of period		1,290,808	1,312,917
Contributed surplus			
Balance - beginning of period		2,138,583	1,744,326
Expiry of warrants		93,000	146,357
Balance - end of period		2,231,583	1,890,683
Accumulated other comprehensive loss			
Balance - beginning of period		(1,810,281)	(212,077)
Exchange differences on translation of foreign operations		(88,046)	(254,128)
Balance - end of period		(1,898,327)	(466,205)
Deficit			
Balance - beginning of period		(5,971,478)	(3,595,197)
Net loss		(2,106,182)	(1,391,417)
Balance - end of period		(8,077,660)	(4,986,614)
Total equity		2,782,890	5,985,113

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

(Expressed in Canadian dollars)

1. Nature of operations and going concern

Zenith Energy Ltd. ("Zenith" or the "Company") 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.

On November 27, 2015, the Company incorporated a wholly-owned subsidiary in the British Virgin Islands ("BVI") under the BVI Business Companies Act, 2004 and changed the name of the subsidiary to Zenith Aran Oil Company Limited on December 30, 2015.

As at December 31, 2015, the Company has a working capital deficit of $3,589,530 (March 31, 2015 – $3,407,115) and an accumulated deficit of $8,077,660 (March 31, 2015 – $5,971,478) 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 conditions indicate the existence of material uncertainties that may cast doubt on the Company's ability to continue as a going concern. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and attain 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.

These condensed interim 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 classifications used in the consolidated statements of financial position. These adjustments could be material.

2. Basis of presentation

These 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. These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual filings for the year ended March 31, 2015.

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 Ltd ("IPP")	US	100%
Canoel Italia SRL	Italy	100%
Zenith Aran Oil Company Limited	BVI	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

(Expressed in Canadian dollars)

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on February 29, 2016.

3. Marketable securities

		December 31 2015		March 31 2015
GRIT shares (a)	$	15,223	$	34,130
Bonds (b)		–		202,863
	$	15,223	$	236,993

(a) GRIT shares

As at December 31, 2015, the Company held 116,913 Global Resources Investment Trust plc ("GRIT") common shares with a fair value of £8,459 (CAD $15,223) (March 31, 2015 –116,913 GRIT shares with a fair value of £18,122 (CAD $34,130)). During the nine months ended December 31, 2015, the Company recognized a $21,552 loss on the fair value of the marketable securities and a $2,645 gain on foreign exchange in the condensed interim consolidated statement of loss and comprehensive loss.

(b) Bonds

As at March 31, 2015, the Company held US$120,370 of Argentine government-issued Boden 2015 bonds at a market price of 11.72 USD bonds to Pesos (CAD $202,863). The bonds bore interest at a fixed rate of 7 % per annum payable semiannually, calculated on the basis of a 360 day year, and were to mature on October 3, 2015 with early redemption permitted at the option of the holder. In May 2015, the Company sold the bonds for CAD$204,315 of proceeds which were used to repay notes payable as disclosed in Note 6.

In May 2015, the Company acquired US$84,000 of Argentine government-issued Boden 2015 bonds at a market price of 11.78 USD bonds to Pesos (CAD$136,568). The bonds bear interest at a fixed rate of 7 % per annum payable semiannually, calculated on the basis of a 360 day year, and mature on October 3, 2015 with early redemption permitted at the option of the holder.

The bonds were sold in July 2015 at a market price of 13.43 USD bonds to Pesos for CAD$157,611 of proceeds.

4. Business combination

On October 1, 2015, the Company acquired a co-generation plant and assumed certain liabilities for plant employee from a third party for total consideration of €449,190 (CAD$666,194), of which €401,148 (CAD$549,943) was financed in the form of a loan payable to the seller (Note 7(d)) and €48,042 (CAD$71,251) was offset against trade and other receivables due from the seller. The loan payable is secured by the co-generation plant and bears interest at 3.5% per annum and is repayable in 30 monthly payments of principal and interest until March 31, 2018.

(Expressed in Canadian dollars)

The acquisition of the co-generation plant was accounted for as a business combination using the acquisition method of accounting:

Fair value of net assets acquired:		
Co-generation plant (D&P assets)	$	697,057
Trade and other payables		(30,863)
	$	666,194
Consideration:		
Euro loan payable (Note 7(d))		594,943
Trade and other receivables		71,251
	$	666,194

The above preliminary amounts of identifiable assets acquired and liabilities assumed has been determined from information available to management of the Company at this time and incorporates estimates. The acquisition accounting will be finalized after all actual results have been obtained and the fair values of assets and liabilities have been determined.

Costs related to acquisition were $35,536 and charged to income during nine months ended December 31, 2015. During the period from October 1, 2015 to December 31, 2015, the acquisition attributed revenues of $83,858 and net income of $70,007 for the period, which is included in the December 31, 2015 condensed interim consolidated statement of income (loss) and comprehensive income (loss).

If the business combination, as described above, had occurred on April 1, 2015, the Company estimates that the revenue would have increased by approximately $342,995 and consolidated net income and comprehensive income would have increased by approximately $275,535. This pro forma information is not necessarily indicative of results had the acquisition occurred on April 1, 2015.

5. Property and equipment

	D&P assets	Furniture & fixtures	Total
Cost			
Balance – March 31, 2015	$ 18,600,085	$ 84,023	$ 18,684,108
Acquisition	697,057	–	697,057
Additions	415,879	–	415,879
Decommissioning obligation	262,659	–	262,659
Foreign currency translation	607,852	(21,561)	586,291
Balance – December 31, 2015	$ 20,583,532	$ 62,462	$ 20,645,994
Accumulated depletion and depreciation			
Balance – March 31, 2015	$ (1,933,815)	$ (56,771)	$ (1,990,586)
Depletion and depreciation	(244,780)	(4,422)	(249,202)
Foreign currency translation	57,851	15,555	73,406
Balance – December 31, 2015	$ (2,120,744)	$ (45,638)	$ (2,166,382)
Carrying amount			
March 31, 2015	$ 16,666,270	$ 27,252	$ 16,693,522
December 31, 2015	$ 18,462,788	$ 16,824	$ 18,479,612

The depletion calculation for the nine months ended December 31, 2015 included estimated future development costs of $2.9 million for proved and probable reserves (March 31, 2015 – $4.9 million).

(Expressed in Canadian dollars)

The Company did not identify any indicators of impairment in respect of the Argentine CGU at December 31, 2015.

As at September 30, 2015, the Company identified certain business risks related to its Italian CGU, such as a decrease in forecast prices from those in the prior year, as indicators of impairment resulting in an impairment test at September 30, 2015. As the estimated recoverable amount of the Italian CGU was higher than the carrying amount, no impairment was recognized. The Company did not identify any new indicators of impairment in respect of the Italian CGU at December 31, 2015.

6. Note payable

As at March 31, 2015, the Company had a $200,499 note payable outstanding comprised of US$98,670 principal amount plus US$20,094 of accrued interest. The note payable was secured by a mortgage on the oil and natural gas properties in Argentina and bore interest at a fixed rate of 11%.

During the first three months of fiscal 2015, the Company repaid the balance of the note payable including accrued interest with proceeds from the sale of bonds (Note 3(b)). As at December 31, 2015, the balance of the note payable is $nil.

7. Loans payable

	December 31 2015	March 31 2015
USD loan payable (a)	$ 2,837,200	$ 2,600,015
Euro bank debt (b)	307,276	–
Euro bank debt (c)	300,580	–
Euro loan payable (d)	544,940	–
	3,989,996	2,600,015
Current portion of loans payable	(1,587,940)	(2,166,679)
Long-term portion of loans payable	$ 2,402,056	$ 433,336

a) USD loan payable

As at March 31, 2015, the Company was indebted to a third party lender for a US$2,050,000 (CAD$2,600,015) loan payable secured by the shares of its wholly owned subsidiary, IPP, and bearing fixed interest at 10% per annum. All accrued and unpaid interest up to June 1, 2015 was to be paid in full by June 1, 2015, followed by equal monthly installments of principal and interest until June 1, 2016.

In May 2015, the Company amended the loan payable repayment schedule and extended the maturity date from June 1, 2016 to August 30, 2016. Pursuant to the amended agreement, the Company will make repayments of principal and interest in the amount of US$17,200 per month from June 1, 2015 to August 30, 2016, a US$700,000 payment on November 30, 2015, a US$1,000,000 payment on April 15, 2016 and a final payment of approximately US$389,597 on August 30, 2016. The Company made and applied the monthly US$17,200 payments from June 1 to December 31, 2015 against accrued interest. The US$700,000 payment due on November 30, 2015 was not made.

In December 2015, the Company amended the loan payable repayment schedule and extended the maturity date from August 30, 2016 to April 30, 2018. Pursuant to the second amended agreement, the Company will make a US$700,000 payment on February 28, 2016 or other date being agreed with the lender, repayments of principal and interest in the amount of US$20,000 per month from April 5, 2016 to April 30, 2018 and a final payment of approximately US$1,485,337 on April 30, 2018.

As at December 31, 2015, the principal balance of the loan was US$2,050,000 (CAD$2,837,200) of which $1,217,920 is classified as a current liability and $1,619,280 is classified as long-term. In addition, $179,860 (March 31, 2015 – $166,641) of accrued interest is included in traded and other payables.

b) Euro bank debt

On August 6, 2015, the Company obtained a €220,000 loan (CAD$315,986) 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 December 31, 2015, the principal balance of the loan was €204,489 (CAD$307,276) of which $58,886 is classified as a current liability and $248,390 is classified as long-term.

c) Euro bank debt

On December 17, 2015, the Company obtained a €200,000 loan (CAD$301,880) 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 December 31, 2015, the principal balance of the loan was €200,000 (CAD$300,580) of which $74,229 is classified as a current liability and $226,351 is classified as long-term.

d) Euro loan payable

On October 1, 2015, the Company acquired a co-generation plant (Note 4) from a third party of which €401,148 (CAD$594,943) of the purchase price is in the form of a loan payable to the seller. The loan payable 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 December 31, 2015, the principal balance of the loan was €362,616 (CAD$544,940) of which $236,905 is classified as a current liability and $308,035 is classified as long-term.

e) Cayman loan payable

On November 13, 2015, the Company secured a £20,000,000 (CAD$40,250,000) unsecured loan facility (the "Loan") for general corporate purposes with a Cayman Islands based Fund (the "Lender"). The Loan can be drawn by written notice given by the Company. Subject to a satisfaction of certain conditions precedent and the approval of the Lender, a minimum sum of £100,000 and up to a maximum sum of £2,000,000 for each tranche can be drawn at any time from the date of the Loan agreement for a period of 18 months after such date. The Loan accrues interest at the rate of 12% per annum on the amount drawn and is payable quarterly in arrears. Each outstanding draw down is repayable on the third anniversary of the first draw down date. The Company may prepay the loan, in whole or in part, at any time and without penalty. A one-time fee of £25,000 is payable in cash or by issuing the Lender common shares of the Company.

As at December 31, 2015, the Company had not made any draws on the Loan.

(Expressed in Canadian dollars)

8. Convertible notes

	Face value $	Debt component $	Derivative liability $
Balance – March 31, 2015	809,505	582,646	159,322
Modification	–	(230,873)	230,873
Change in fair value	–	–	(209,652)
Accretion	–	181,757	–
Foreign exchange	46,376	42,279	–
Balance – December 31, 2015	855,881	575,809	180,543

As at March 31, 2015, the Company held $620,000 Swiss Francs of unsecured convertible notes bearing interest at 9% per annum, payable in arrears in equal quarterly installments and maturing on January 11, 2017. 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$0.215 per share.

In July 2015, the Company entered into an agreement to amend the terms of the $620,000 Swiss Francs of unsecured convertible notes. Pursuant to the terms of the agreement, the conversion price was reduced to $0.125 per share and the rate of interest was reduced to 5%. The amended conversion price is based on the July 7, 2015 closing market price of the Company's shares.

The effect of the amendments 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 $230,873 on the date of modification.

Interest is accrued and presented in trade and other payables in the amount of $307,549 as at December 31, 2015 (March 31, 2015 – $235,974).

9. Bonds payable

Balance – March 31, 2015	$	–
Unit private placement proceeds		538,900
Allocation to warrants		(49,000)
Finder's warrants		(1,900)
Finder's fees		(21,169)
		466,831
Accretion		17,228
Foreign currency translation		52,903
Balance – December 31, 2015	$	536,962

During the first quarter of fiscal 2015, the Company completed a non-brokered private placement of 290,000 units at a price of GBP 1.00 per unit ($1.86 per unit) for gross proceeds of GBP 290,000 ($538,900). Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants. The bonds are secured by 99% of the oil and gas properties owned by the Company's subsidiary, Canoel Italia SRL. The bonds bear interest at 12% per annum, payable quarterly, until the maturity date 36 months from the date of issuance at which time the principal amount of bonds is repayable in full.

Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of $0.25 per share for a period of 36 months from the date of issuance. In connection with the private placement, the Company paid a finder's fees of GBP 11,250 ($21,169) and granted 67,500 finder's warrants exercisable at $0.25 until for a period of 36 months from the date of issuance.

(Expressed in Canadian dollars)

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

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

Included in trade and other payables as at December 31, 2015 is $28,519 of accrued interest.

10. 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, 2015	$	5,779,799
Change in estimate		262,659
Accretion		203,478
Foreign currency translation		23,330
Balance – December 31, 2015	$	6,269,266

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

Undiscounted cash flows – uninflated	$17.7 million
Undiscounted cash flows - inflated	$307.7 million
Risk free rate	28.5%
Inflation rate	16.6%
Expected timing of cash flows	18 – 23 years

11. Share capital

	Number of shares		Amount
Balance – March 31, 2015	29,292,081	$	8,686,556
Unit private placement proceeds	7,289,125		637,130
Fair value of warrants	–		(87,200)
Balance – December 31, 2015	36,581,206	$	9,236,486

(a) In September 2015, the Company completed the private placement of 2,700,000 units at $0.10 per unit for gross proceeds of $270,000. Each unit is comprised of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at $0.25 per share for a period of 36 months from the date of issuance.

The grant date fair value of the warrants was $0.02 per warrant ($26,100) estimated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.54%
Expected volatility	75%
Expected life	3 years
Dividends	nil

(b) In November and December 2015, the Company completed private placements for aggregate 4,589,125 units at $0.08 per unit for gross proceeds of $ 367,130. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at $0.25 per share for a period of 36 months from the date of issuance.

(Expressed in Canadian dollars)

The grant date fair value of the warrants was $0.01 per warrant ($61,100) estimated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.67%	Expected life	3 years
Expected volatility	75%	Dividends	nil

12. Warrants

	Number of warrants	Amount $	Weighted average exercise price
Balance – March 31, 2015	17,228,852	1,245,708	$ 0.25
Unit private placement (Note 9)	1,740,000	49,000	0.25
Finder's fees (Note 9)	67,500	1,900	0.25
Unit private placements (Note 11)	5,939,125	87,200	0.25
Expired	(825,000)	(93,000)	(0.25)
Balance – December 31, 2015	24,150,477	1,290,808	$ 0.25

As at December 31, 2015, the Company had 24,150,477 warrants outstanding and exercisable at a weighted average exercise price of $0.25 per share with a weighted average life remaining of 2 years.

13. Stock options

As at March 31, 2015, the Company had a 175,000 stock options outstanding and exercisable at a weighted average exercise price of $0.95 per share. In September 2015, 95,000 options exercisable at $1.00 expired. As at December 31, 2015, the Company had 80,000 stock options outstanding and exercisable at a weighted average exercise price of $0.90 per share and a weighted average life remaining of 0.17 years.

14. Per share amounts

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
	$	$	**$**	$
Net loss	(889,470)	(179,532)	(2,106,182)	(1,391,417)
Weighted average number of shares – basic:				
Issued common shares as at April 1	29,292,081	11,252,039	29,292,081	11,252,039
Effect of common shares issued during the period	4,331,733	11,286,629	1,566,979	7,811,071
	33,623,814	22,538,668	30,859,060	19,063,110
Net loss per share – basic and diluted (1)	(0.03)	(0.01)	(0.07)	(0.07)

(1) The Company did not have any in-the-money convertible notes, warrants and stock options during the three and nine months ended December 31, 2015 and 2014. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

(Expressed in Canadian dollars)

15. Finance expense

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
	$	$	**$**	$
Interest expense	129,046	81,310	372,961	303,881
Accretion of convertible notes (Note 8)	74,469	188,408	181,757	362,840
Accretion of bonds (Note 9)	6,049	–	17,228	–
Accretion of decommissioning obligation (Note 10)	62,741	113,099	203,478	322,008
	272,305	382,817	775,424	988,729

16. Supplemental disclosure

The condensed interim consolidated statements of loss and comprehensive loss are 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:

	Three months ended December 31		Nine months ended December 31	
	2015	2014	**2015**	2014
	$	$	**$**	$
Operating	309,635	283,250	820,415	772,580
General and administrative	76,563	161,189	323,747	453,117
Total employee compensation cost	386,198	444,439	1,144,162	1,225,697

17. Change in non-cash working capital

For the nine months ended December 31		2015		2014
Trade and other receivables	$	(209,466)	$	(292,820)
Inventory		(154,207)		46,783
Prepaid expenses		(137,243)		(304,246)
Prepaid property and equipment insurance		133,973		119,367
Trade and other payables		497,721		136,050
Total change in non-cash working capital	$	130,778	$	(294,866)

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

		2015		2014
Operating	$	89,666	$	(401,090)
Financing		(30,660)		–
Investing		71,772		106,224
Total change in non-cash working capital	$	130,778	$	(294,866)

(Expressed in Canadian dollars)

18. Related party transactions

a) Included in general and administrative expenses for the three and nine months ended December 31, 2015 is $34,902 and $147,645 (three and nine months ended December 31, 2014 – $53,528 and $185,824), respectively, charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at December 31, 2015, $nil (March 31, 2015 – $nil) was included in trade and other payables in respect of these charges.

b) Included in trade and other payables is $57,891 (March 31, 2015 – $nil) due to officers and directors of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officers and directors will be reimbursed.

19. 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 carrying amount cash of $169,061 (March 31, 2015 – $936,499) and trade and other receivables of $906,565 (March 31, 2015 – $713,031).

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

	December 31 2015	March 31 2015
Oil and natural gas sales	$ 537,714	$ 383,067
Stamp tax and other tax withholdings	234,680	234,394
Goods and services tax	11,290	16,964
Other	122,881	78,606
	$ 906,565	$ 713,031

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 2015	March 31 2015
Current	$ 626,288	$ 443,999
90 + days	280,277	269,032
	$ 906,565	$ 713,031

(Expressed in Canadian dollars)

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, 2015, the Company had $5,215,351 (March 31, 2015 – $5,606,441) of current liabilities for which the Company's $169,061 (March 31, 2015 – $936,499) 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, 2015, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

		Carrying amount	Contractual cash flows	Due on or before December 31 2016	Due on or before December 31 2017	Due between April 2018 and August 2020
Trade and other payables	$	2,531,068	2,531,068	2,531,068	–	–
Oil share agreement		1,096,343	1,096,343	1,096,343	–	–
Loans payable		3,989,996	4,964,947	1,632,751	754,629	2,577,567
Convertible notes		575,809	935,442	77,240	858,202	–
Bonds payable		536,962	757,578	53,311	71,018	633,249
	$	8,730,178	10,285,378	5,390,713	1,683,849	3,210,816

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 income (loss) 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	
	2015	2015	2015	2014
Argentine Peso	0.1069	0.1438	0.1375	0.1333
US dollar	1.3840	1.2683	1.2908	1.0895
Euro	1.5029	1.3623	1.4256	1.4688
Swiss Franc	1.3805	1.3057	1.3365	1.2117
British Pound	2.0407	1.8834	1.9790	1.8262

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at December 31, 2015 and 2014 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

(Expressed in Canadian dollars)

For the nine months ended December 31	2015	2014
Argentine Peso	$ 57,150	$ 24,830
US dollar	294,090	273,250
Euro	108,760	48,430
Swiss Franc	116,350	91,880
British Pound	55,720	5,070
	$ 632,070	$ 443,460

ii) 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, 2015, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the nine months ended December 31, 2015 of approximately $23,800 (2014 – $38,800).

Oil prices in Argentina are the results of 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, 2015, a 5% change in the price of oil would represent a change in the net loss for the nine months ended December 31, 2015 of approximately $64,300 (2014 – $143,830).

iii) 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 loans payable (Note 7), convertible notes (Note 8) and bonds payable (Note 9) and therefore is not exposed to interest rate risk.

20. Subsequent event

On February 1, 2016, the Company completed the first tranche of a private placement for 2,655,688 units at $0.08 per unit for gross proceeds of $212,455. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at $0.15 per share for a period of 24 months from the date of issuance. The Company paid $3,368 and issued 42,108 warrants exercisable at $0.15 per share for a period of 24 months from the date of issuance as finder's fees.

21. 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 2015 or 2014.

(Expressed in Canadian dollars)

		December 31, 2015				March 31, 2015			
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Property and equipment	$	2,158,444	16,321,168	-	18,479,612	2,250,254	14,443,268	-	16,693,522
Other assets	$	489,433	1,185,903	205,552	1,880,888	930,904	1,120,668	503,161	2,554,733
Total liabilities	$	5,827,743	6,576,069	5,173,798	17,577,610	5,184,303	5,468,607	4,306,257	14,959,167
Total capital expenditures	$	(256,070)	(261,923)	-	(517,993)	(929,624)	(240,976)	-	(1,170,600)

		Three months ended December 31							
		2015	2014	2015	2014	2015	2014	2015	2014
		Argentina		Italy		Other		Total	
Revenue	$	83,904	1,202,387	187,358	283,904	-	-	271,262	1,486,291
Royalties		7,521	117,040	-	-	-	-	7,521	117,040
Operating and transportation		441,855	428,115	20,798	70,119	-	-	462,653	498,234
General and administrative		90,960	65,692	159,046	112,098	391,106	279,061	641,112	456,851
Depletion and depreciation		1,325	150,298	54,273	60,749	-	-	55,598	211,047
Transaction costs		-	-	35,536	-	-	-	35,536	-
Finance and other expenses		(319,900)	97,054	51,340	(1,040)	226,872	286,637	(41,688)	382,651
Segment income (loss)	$	(137,857)	344,188	(133,635)	41,978	(617,978)	(565,698)	(889,470)	(179,532)

		Nine months ended December 31							
		2015	2014	2015	2014	2015	2014	2015	2014
		Argentina		Italy		Other		Total	
Revenue	$	1,283,940	2,878,080	519,232	844,350	-	-	1,803,172	3,722,430
Royalties		115,408	270,477	-	-	-	-	115,408	270,477
Operating and transportation		1,111,690	1,256,065	217,782	304,245	-	-	1,329,472	1,560,310
General and administrative		501,223	371,378	360,136	355,630	1,120,516	1,019,448	1,981,875	1,746,456
Depletion and depreciation		58,204	349,396	190,998	246,681	-	-	249,202	596,077
Transaction costs		-	-	35,536	-	-	-	35,536	-
Other expense		-	-	-	-	-	-	-	-
Finance and other (income) expenses		(391,070)	403,573	87,746	12,039	501,185	524,915	197,861	940,527
Segment income (loss)	$	(111,515)	227,191	(372,966)	(74,245)	(1,621,701)	(1,544,363)	(2,106,182)	(1,391,417)