

Zenith Energy Ltd.

Condensed Interim Consolidated Financial Statements

As at and for the three months ended June 30, 2016

(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 months ended June 30, 2016.

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 months ended June 30, 2016 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) "Nilesh Jagatia"
Chief Financial Officer

August 27, 2016

Calgary, Alberta

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Zenith Energy Ltd.

Condensed Interim Consolidated Statement of Financial Position
(unaudited)

(Expressed in Canadian dollars)

As at		June 30 2016	March 31 2016
	Note	\$	\$
ASSETS			
Current assets			
Cash		78,235	137,982
Marketable securities	3	7,098	7,632
Trade and other receivables	18	888,969	787,477
Inventory		176,127	173,457
Prepaid expenses		405,566	385,504
		1,555,995	1,492,052
Non-current assets			
Property and equipment	5	626,088,366	14,598,089
Prepaid property and equipment insurance		162,860	207,000
Total assets		627,807,221	16,297,141
LIABILITIES			
Current liabilities			
Trade and other payables	18	3,103,722	3,266,503
Oil share agreement		1,030,514	1,027,504
Loans payable	6	3,211,634	3,210,114
Convertible notes	7	401,610	697,046
		7,747,480	8,201,167
Non-current liabilities			
Loans payable	6	579,493	673,647
Convertible notes	7	-	-
Derivative liability	7	332,636	357,936
Bonds	8	540,879	563,103
Decommissioning obligation	9	9,663,030	7,896,671
Deferred taxes		883,567	883,567
		11,999,605	10,374,924
Total liabilities		19,747,085	18,576,091
SHAREHOLDERS' EQUITY			
Share capital	10	10,134,833	9,578,270
Warrants	11	2,223,037	1,509,537
Contributed surplus		2,231,583	2,231,583
Accumulated other comprehensive loss		(10,302,377)	(1,952,414)
Surplus (deficit)		603,773,060	(13,645,926)
Total shareholders' equity (deficit)		608,060,136	(2,278,950)
Total liabilities and shareholders' equity		627,807,221	16,297,141

Going concern (Note 1)

Subsequent event (Note 19)

Segmented information (Note 20)

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

Zenith Energy Ltd.**Condensed Interim Consolidated Statement of Income and Comprehensive Income**
(unaudited)

(Expressed in Canadian dollars)

For the three months ended June 30		2016	2015
	Note	\$	\$
Revenue			
Oil and gas revenue		107,902	971,349
Electricity revenue		140,813	-
Royalties		(7,500)	(72,322)
		241,215	899,027
Expenses			
Operating		307,603	350,673
Transportation		1,794	26,111
General and administrative		603,492	691,562
Foreign exchange		(122,776)	(124,783)
Fair value adjustment on marketable securities	3	-	2,293
Fair value adjustment on derivative liability	7	-	(3,234)
Depletion and depreciation	5	53,310	100,641
		843,423	1,043,263
Loss from operations		(602,208)	(144,236)
Gain on business combination	4	618,145,430	-
Finance expense	14	(124,236)	(203,779)
Net Profit (loss)		617,418,986	(348,015)
Exchange differences on translation on foreign operations		(8,349,962)	62,272
Comprehensive Profit (loss)		609,069,024	(285,743)
Net Profit (loss) per share			
Basic	13	11.56	(0.01)
Diluted		6.49	(0.01)
Weighted average shares outstanding			
Basic	13	53,429,628	29,292,081
Diluted	13	95,137,411	29,292,081

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

Zenith Energy Ltd.**Condensed Interim Consolidated Statement of Cash Flows****(unaudited)**

(Expressed in Canadian dollars)

For the three months ended June 30		2016	2015
	Note	\$	\$
Operating activities			
Net income (loss)		617,418,986	(348,015)
Items not involving cash:			
Shares issued for services		45,170	-
Fair value adjustment on marketable securities		-	2,293
Fair value adjustment on derivative liability		-	(3,234)
Gain on business combination		(618,145,430)	-
Depletion and depreciation		53,310	100,641
Impairment of property and equipment		2,203	-
Finance expense		18,384	112,323
		(607,377)	(135,992)
Foreign exchange on translation		101,731	(81,088)
Change in non-cash working capital	16	(375,312)	(301,077)
		(880,958)	(518,157)
Financing activities			
Proceeds from issuance of bonds		-	517,731
Repayment of notes payable		(83,016)	(201,383)
Proceeds from issue of share capital, net of share issue costs		924,593	-
Change in non-cash working capital	16	-	(30,660)
		841,577	285,688
Investing activities			
Proceeds on sale of marketable securities		-	201,383
Purchase of marketable securities		-	(136,568)
Expenditures on property and equipment		(19,969)	(111,902)
Change in non-cash working capital	16	2,496	34,314
		(17,473)	(12,773)
Change in cash		(56,854)	(245,242)
Foreign exchange effect on cash held in foreign currencies		(2,893)	(15,608)
Cash, beginning of period		137,982	936,499
Cash, end of period		78,235	675,649
Supplemental cash flow information			
Interest paid		66,136	58,479
Taxes paid		-	-

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

Zenith Energy Ltd.

Condensed Interim Consolidated Statement of Changes in Equity For the three months ended June 30, 2016 (Unaudited) (Expressed in Canadian dollars)

For the three months ended June 30	Note	2016 \$	2015 \$
Share capital			
Balance - beginning of period		9,578,270	8,686,556
Unit private placement, net of issue costs		924,593	-
Fair value of warrants		(713,500)	-
Debt settlement		45,170	-
Conversion of convertible notes		300,300	-
Balance - end of period		10,134,833	8,686,556
Warrants			
	11		
Balance - beginning of period		1,509,537	1,245,708
Fair value of warrants		713,500	50,900
Expiry of warrants		-	-
Balance - end of period		2,223,037	1,296,608
Contributed surplus			
Balance - beginning of period		2,231,583	2,138,583
Expiry of warrants		-	-
Balance - end of period		2,231,583	2,138,583
Accumulated other comprehensive loss			
Balance - beginning of period		(1,952,414)	(1,810,281)
Exchange differences on translation of foreign operations		(8,349,963)	62,272
Balance - end of period		(10,302,377)	(1,748,009)
(Deficit)			
Balance - beginning of period		(13,645,926)	(5,971,478)
Comprehensive profit (loss)		617,418,986	(348,015)
Balance - end of period		603,773,060	(6,319,493)
Total equity		608,060,136	4,054,245

Zenith Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30, 2016 (Unaudited)

(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.

As at June 30, 2016, the Company has a working capital deficit of \$6,191,485 (March 31, 2016 – \$6,709,115), negative cash flows from operating activities of \$880,959 (March 31, 2016 - \$2,473,757) and an accumulated surplus of \$603,773,060 (March 31, 2016 deficit – (\$13,645,926)) 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, Azerbaijan 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, 2016.

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

<u>Entity</u>	<u>Registered</u>	<u>Holding</u>
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

Zenith Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended June 30, 2016 (Unaudited) (Expressed in Canadian dollars)

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 27, 2016.

Critical Accounting Assumptions

During the quarter ended June 30, 2016 the Company recognised a value of assets and associated liabilities for its Azerbaijan Assets acquired. The value of the Asset has been based on the Net Present Value ("NPV") of future cash flows included in the Competent Persons Report prepared on behalf of the Company by Champan Petroleum Engineering Ltd. and published on [DATE]. The NPV of future cashflows was discounted at a rate of 10%. The Board considers 10% an appropriate rate of discount for the following reasons:

- The Asset has a verified producing history as well as current production;
- The asset is production & development with 2P reserves (made by way of a National Instrument 51-101) based over an acreage of 642 square kilometres comprised of different structures;
- The Asset is low cost and onshore presenting a low operational risk;
- Azerbaijan has one of the world's oldest established Oil & Gas industries;
- Azerbaijan has a stable political environment with a government that has guaranteed and supported the licence rights of companies operating in the Oil & Gas industry since its independence in 1992
- Crude oil is exported via two different pipelines, one delivering oil to the Mediterranean Sea and the other in the Black Sea, thereby derisking routes to market from both a political and logistical perspective.

3. Marketable securities

		June 30 2016		March 31 2016
GRIT shares (a)	\$	7,098	\$	7,632
	\$	7,098	\$	7,632

(a) GRIT shares

As at June 30, 2016, the Company held 116,913 GRIT shares with a fair value of British Pounds ("GBP") 4,092 (\$7,098) (2015 – 116,913 GRIT shares with a fair value of GBP 18,122 (\$34,130)).

The Company sold all of the GRIT shares for gross cash proceeds of \$10,840 in July 2016 recognized a a \$3,953 gain on the sale of marketable securities and a \$745 loss on foreign exchange in the consolidated statements of loss and comprehensive loss.

4. Business combination

Azerbaijan

On 14 June 2016, the Company received notice of ratification from the Parliament of the Republic of Azerbaijan of the REDPSA for certain blocks of oil fields in which the Company obtained the rights and obligations for an 80% participating interest in current and future production, as well as acknowledging, Aran Oil Operating Company Ltd., an 80% owned subsidiary of Zenith Aran, as operator of the REDPSA. This ratification has transformed the REDPSA in a law of the country, which has been signed by the President of the Republic of Azerbaijan on the 24 of June.

On June 8, 2015, the Company and SOCAR executed a confidential memorandum of understanding ("MOU") regarding the Muradhanli Block. Formal approval of the MOU and permission to disclose was subsequently granted by the President of Azerbaijan through Decree No. 1439 dated October 7, 2015 ("Presidential Decree")

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For the three months ended June 30, 2016 (Unaudited)

(Expressed in Canadian dollars)

which authorised SOCAR to prepare and execute a REDPSA for the Muradhanli Block between the Company and SOCAR on behalf of the Republic of Azerbaijan.

The REDPSA was executed on March 16, 2016 between SOCAR, Zenith Aran and SOCAR Oil Affiliate ("SOA"), a 100% owned subsidiary of SOCAR. The REDPSA became effective on June 20, 2016 upon ratification by the Parliament of the Republic of Azerbaijan whereby the REDPSA, and the Company's rights and obligations under the REDPSA, became binding law in Azerbaijan.

The REDPSA covers approximately 642 square kilometres (or 248 square miles) which include the active Muradkhanli, Jafarli and Zardab oil fields located in the Lower Kura Region, approximately 300 kilometres inland from the city of Baku. Pursuant to the REDPSA, the Company holds an 80% participating interest both the Contract Rehabilitation Area and the Contract Exploration Area, with SOA holds the remaining 20% participating interest. Together, the Company and SOA will form the contractor group.

The term of the Contract Rehabilitation Area portion of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's rehabilitation and production program which is anticipated to occur in late 2016. The term of the Contract Exploration Area portion of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's development program. The term of each Area may be extended by an additional five years at SOCAR's discretion.

The acquisition of Assets has been brought to account as a business combination using the acquisition method of accounting as follows:

Fair value of net assets acquired CAD\$	
D&P assets	611,899,012
Foreign currency translation	(8,189,747)
Decommissioning obligations	(1,943,339)
Gain on business combination	618,145,430

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

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

As there are no costs for the acquisition, due to the fair value of the net assets acquired the Company recognised a CAD \$618,145,430 gain on the business combination in the first quarter of year 2017 Consolidated Statement of Comprehensive Income.

On 15 June 2016, the day immediately following the acquisition date, the decommissioning obligation assumed was re-measured using a long-term risk-free rate based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The result was a CAD \$1,943,339 increase in the decommissioning obligation associated with the acquired assets and the net result of the acquisition and recognition of decommissioning liability recognition being a gain of CAD \$618,145,430 measurement adjustment in the first quarter of year 2017 consolidated statement of income (loss) and comprehensive income (loss) using prevailing exchange rates..

If the business combination, as described above, had occurred on 1 July 2016, the Company estimates for the three months ending September 30, 2016 that revenue would increase by approximately CAD \$1,075,000 and

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For the three months ended June 30, 2016 (Unaudited)

(Expressed in Canadian dollars)

consolidated net income and comprehensive income would increase by approximately CAD \$828,000. This pro forma information is not necessarily indicative of results had the acquisition occurred on 1 July 2016.

5. Property and equipment

	D&P assets	Furniture & fixtures	Total
Cost			
Balance – March 31, 2016	\$ 21,612,271	\$ 51,921	\$ 21,664,192
Acquisition	611,899,012	–	611,899,012
Additions	19,969	–	19,969
Decommissioning obligations	(2,023)	-	(2,023)
Foreign currency translation	(547,664)	(1,028)	(548,692)
Balance – June 30, 2016	\$ 632,981,565	\$ 50,893	\$ 633,032,458
Accumulated depletion and depreciation			
Balance – March 31, 2016	\$ (7,027,156)	\$ (38,947)	\$ (7,066,103)
Depletion and depreciation	(52,029)	(1,281)	(53,310)
Foreign currency translation	174,501	820	175,321
Balance – June 30, 2016	\$ (6,904,684)	\$ (39,408)	\$ (6,944,092)
Carrying amount			
March 31, 2016	\$ 14,585,115	\$ 12,974	\$ 14,598,089
June 30, 2016	\$ 626,076,881	\$ 11,485	\$ 626,088,366

The depletion calculation for the three months ended June 30, 2016 included estimated future development costs of \$2.7 million for proved and probable reserves (March 31, 2016 – \$2.7 million).

The Company did not identify any indicators of impairment at June 30, 2016.

The Company did not identify any new indicators of impairment in respect of the Italian CGU at March 31, 2016.

6. Loans payable

	June 30 2016	March 31 2016
USD loan payable (a)	\$ 2,842,905	\$ 2,834,600
Euro bank debt (b)	265,855	288,422
Euro bank debt (c)	255,221	282,457
Euro loan payable (d)	427,146	478,282
	3,791,127	3,883,761
Current portion of loans payable	(3,211,634)	(3,210,114)
Long-term portion of loans payable	\$ 579,493	\$ 673,647

a) USD loan payable

As at March 31, 2016, the Company was indebted to a third party lender for a USD 2,185,337 (\$2,834,600) loan payable secured by the shares of its wholly owned subsidiary, IPP, and bearing fixed interest at 10% per annum.

The loan maturity date is March 31, 2018 and the repayment scheduled was amended in August 2016 to

Zenith Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

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(Expressed in Canadian dollars)

require a USD 700,000 payment on October 15, 2016 and a final payment of approximately USD 1,485,337 on March 31, 2018..

As at June 30, 2016, \$2,842,905 (March 31, 2016 – \$2,834,600) of principal is classified as a current liability; \$nil (March 31, 2016 – \$nil) of principal is classified as long-term and \$227,739 (March 31, 2016 – \$156,874) 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 June 30, 2016, the principal balance of the loan was €185,213 (CAD\$265,855) of which \$58,278 is classified as a current liability and \$207,577 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 June 30, 2016, 2015, the principal balance of the loan was €177,806 (CAD\$255,221) of which \$80,182 is classified as a current liability and \$175,039 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 June 30, 2016, the principal balance of the loan was €297,579 (CAD\$427,145) of which \$230,269 is classified as a current liability and \$196,876 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 June 30, 2016 the Company had not made any draws on the Loan.

7. Convertible notes

	Face value \$	Debt component \$	Derivative liability \$
Balance – March 31, 2016	730,915	697,046	357,936
Conversion	(300,300)	(275,000)	(25,300)

Zenith Energy Ltd.

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For the three months ended June 30, 2016 (Unaudited)

(Expressed in Canadian dollars)

Foreign exchange	(15,344)	(20,436)	–
Balance – June 30, 2016	415,271	401,610	332,636

As at June 30, 2016, the Company held CHF312,586 Swiss Francs (\$415,271) (March 31, 2016 – CHF540,000 Swiss Francs (\$730,915)) principal amount of unsecured convertible notes bearing interest at 5% 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 \$0.125 per share.

Interest is accrued and presented in trade and other payables in the amount of \$323,733 as at June 30, 2016 (March 31, 2016 – \$314,597).

In June 2016, the Company issued 2,730,000 common shares on the conversion of 227,414 Swiss Francs (\$300,300) principal amount of convertible notes (Note 10).

In August 2016 the Company amended the maturity of the convertible notes from January 11, 2017 to January 11, 2018.

8. Bonds payable

Balance – March 31, 2016	\$	563,103
Unit private placement proceeds		–
Fair value of warrants		–
Finder's warrants		–
Finder's fees		–
Liability portion		563,103
Interest		16,043
Accretion		2,341
Foreign currency translation		(40,608)
Balance – June 30, 2016	\$	540,879

The bonds are secured by 99% of the oil and gas properties owned by the Company's subsidiary, Canoe 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.

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

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

Zenith Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended June 30, 2016 (Unaudited)

(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, 2016	\$	7,896,671
Acquisition		1,943,339
Change in estimate		-
Accretion		-
Foreign currency translation		(176,980)
Balance – June 30, 2016	\$	9,663,030

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

Undiscounted cash flows – uninflated	\$17 million
Undiscounted cash flows - inflated	\$1,223 million
Risk free rate	35.2%
Inflation rate	25.4%
Expected timing of cash flows	16 – 20 years

10. Share capital

	Number of shares	Amount
Balance – March 31, 2016	43,594,406	\$ 9,578,270
Unit private placement proceeds	15,289,400	1,270,063
Fair value of warrants	–	(713,500)
Balance – June 30, 2016	58,883,806	\$ 10,134,833

- (a) On 11 April 2016 the Company completed the private placement of 6,674,775 shares at CAD\$0.08 per unit for gross proceeds of CAD\$533,982. 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 Company also paid aggregate finders' fees of CAD\$28,000.
- (b) On 21 April 2016, the Company completed the private placement of 3,892,875 shares at CAD\$0.08 per unit for gross proceeds of CAD\$311,430. 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 Company also paid aggregate finders' fees of CAD\$14,376.95 and issued 179,712 warrants to certain arm's-length parties in the connection with the Private Placement.
- (c) On 09 June 2016, the Company issued 2,730,000 shares at a deemed price of \$0.11 per share, 312,500 shares at a price of \$0.10 per share and 160,000 shares at a price of \$0.087 per share to certain debtholders and creditors of the Corporation to settle debts owing by the Company, representing in aggregate of \$345,470.

Zenith Energy Ltd.

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(Expressed in Canadian dollars)

- (d) On 16 June 2016 the Company has closed a non-brokered private placement of 1,519,250 shares of the Company at a price of \$0.08 per Unit for aggregate gross proceeds of \$121,540. 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.

11. Warrants

	Number of warrants	Amount \$	Weighted average exercise price
Balance – March 31, 2016	29,638,898	1,509,537	\$ 0.23
Unit private placements (Note 10)	12,591,612	713,500	0.15
Balance – June 30, 2016	42,230,510	2,223,037	\$ 0.21

As at June 30, 2016 the Company had 42,230,510 warrants outstanding and exercisable at a weighted average exercise price of \$0.21 per share with a weighted average life remaining of 2 years.

12. Stock options

The Company has a stock option plan (the "Plan") for the benefit of directors, employees and consultants. The maximum number of shares available under the Plan is limited to 10% of the issued and outstanding common shares at the time of granting options. Granted options are fully vested on the date of grant, at which time all related share-based payment expense is recognized in the consolidated statements of loss and comprehensive loss. Stock options expire five years from the date of grant.

As at June 30, 2016 the Company had no outstanding stock options.

13. Per share amounts

For the three months ended June 30	2016	2015
Net Profit (loss)	\$ 617,418,986	\$ (348,015)
Weighted average number of shares – basic:		
Issued common shares as at April 1	43,594,406	29,292,081
Effect of common shares issued during the year	9,835,222	–
Basic weighted average number of shares	53,429,628	29,292,081
Potential dilutive effect on shares issuable under warrants	41,707,783	–
Potential diluted weighted average number of shares	95,137,411	29,292,081
Net Profit (loss) per share – basic ⁽¹⁾	\$ 11.56	\$ (0.01)
Net Profit (loss) per share – diluted	6.49	\$ (0.01)

⁽¹⁾ The Company did not have any in-the-money convertible notes, warrants and stock options during the three months ended June 30, 2016 and 2015. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

14. Finance expense

For the three months ended June 30	2016	2015
Interest expense	\$ 121,895	\$ 92,126

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Accretion of convertible notes (Note 7)	-	35,736
Accretion of bonds (Note 8)	2,341	5,129
Accretion of decommissioning obligation (Note 9)	-	70,788
	\$ 124,236	\$ 203,779

15. Supplemental disclosure

The condensed interim consolidated statements of profit and comprehensive profit are prepared primarily by nature of expense with the exception of employee compensation cost which is included in operating and general and administrative expenses. As at June 30, 2016 the Company and its subsidiaries had 15 full time employees and three part time employees or consultants based in its offices in Buenos Aires and Comodoro Rivadavia in Argentina and in Genoa, Italy. Subsequently the handover dated August 11, 2016 the Company hired additional 201 full time employees and one part time employees or consultants all based in Baku in Azerbaijan.

The following table details the amounts of total employee compensation:

For the three months ended June 30	2016	2015
Operating	\$ 162,808	\$ 195,451
General and administrative	113,942	161,873
Total employee compensation cost	\$ 276,750	\$ 357,324

16. Change in non-cash working capital

For the three months ended June 30	2016	2015
Trade and other receivables	\$ (121,476)	\$ (72,861)
Inventory	(130,965)	2,670
Prepaid expenses	(26,316)	(59,545)
Prepaid property and equipment insurance	38,771	54,243
Trade and other payables	(132,830)	(221,930)
Total change in non-cash working capital	\$ (372,816)	\$ (297,423)

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

	2016	2015
Operating	\$ (375,312)	\$ (301,077)
Financing	2,496	(30,660)
Investing	-	34,314
Total change in non-cash working capital	\$ (372,816)	\$ (297,423)

17. Related party transactions

- a) Included in general and administrative expenses is \$40,680 (2015 – \$57,295) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at June 30, 2016, \$nil

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(March 31, 2016 – \$nil) was included in trade and other payables in respect of these charges.

- b) Included in trade and other payables is \$37,075 (March 31, 2016 – \$8,966) 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.

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 carrying amount cash of \$78,235 (March 31, 2016 – \$137,982) and trade and other receivables of \$888,689 (March 31, 2016 – \$787,477).

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

	June 30 2016	March 31 2016
Oil and natural gas sales	\$ 507,421	\$ 475,219
Stamp tax and other tax withholdings	14,336	216,926
Goods and services tax	157,308	12,261
Other	209,904	83,071
	\$ 888,969	\$ 787,477

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:

	June 30 2016	March 31 2016
Current	\$ 564,235	\$ 542,962
90 + days	324,734	244,515
	\$ 888,969	\$ 787,477

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 June 30, 2016, the Company had \$7,747,480 (March 31, 2015 – \$8,201,167) of current liabilities for which the Company's \$78,235 (March 31, 2016 – \$137,982) 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

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assurance that such financings will be available to the Company.

As of June 30, 2016, 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 June 30 2017	Due on or before June 30 2018	Due between July 2018 and August 2020
Trade and other payables	\$ 3,103,722	3,103,722	3,103,722	—	—
Oil share agreement	1,030,514	1,030,514	1,030,514	—	—
Loans payable	3,791,127	4,725,331	4,130,907	343,256	251,168
Convertible notes	401,610	415,271	415,271	—	—
Bonds payable	540,879	613,879	60,369	553,510	—
	\$ 8,867,852	9,888,717	8,740,783	896,766	251,168

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	
	2016	2015	2016	2015
Argentine Peso	0.0871	0.1438	0.0906	0.1357
US dollar	1.3009	1.2683	1.2889	1.1387
Euro	1.4354	1.3623	1.4553	1.4382
Swiss Franc	1.3240	1.3057	1.3478	1.3275
British Pound	1.7347	1.8834	1.8486	1.8320
Azerbaijani New Manat	0.8416	—	0.8529	—

The following represents the estimated impact on net profit (loss) of a 10% change in the closing rates as at June 30, 2016 and 2015 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	2016	2015
Argentine Peso	\$ 62,100	—
US dollar	290,800	255,140
Euro	182,700	—
Swiss Franc	74,300	53,560
British Pound	45,700	108,690
Azerbaijani New Manat	1,500	—
	\$ 657,100	\$ 417,390

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.

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As at June 30, 2016, a 5% change in the price of natural gas produced in Italy would represent a change in net profit for the three months ended June 30, 2016 of approximately \$1,400 (2015 loss – (\$3,990)) and a 5% change in the price of electricity produced in Italy would represent a change of net profit for the three months ended June 30, 2016 of approximately \$7,000 (2015 – not applicable).

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 June 30, 2016, a 5% change in the price of oil would represent a change in net income (loss) for the three months ended June 30, 2016 of approximately \$4,000 (2015 – \$40,450).

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

19. Subsequent events

- In August 2016, subject to approval by the TSX Venture Exchange, the Company entered into an agreement to amend the terms of its unsecured convertible notes from January 11, 2017 to January 11, 2018.
- On 11 of August 2016 the process of handover of the technical assets of the three fields, Muradxanli, Cafarli and Zardab in Azerbaijan was completed and the Company commenced production as the new operator on 11 August 2016.
- In August 2016 the Company amended the repayment of the USD 700,000 of the USD loan to October 15, 2016.

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 four reportable segments which are as follows:

- Argentina;
- Azerbaijan;
- 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 2016 or 2015.

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(Unaudited)

(Expressed in Canadian dollars)

	June 30, 2016					March 31, 2016				
	Argentina	Azerbaijan	Italy	Other	Total	Argentina	Azerbaijan	Italy	Other	Total
Property and equipment \$	3,115,992	611,899,012	11,073,362	-	626,088,366	3,177,155	-	11,420,934	-	14,598,089
Other assets \$	440,113	17,532	952,387	308,823	1,718,855	504,125	-	958,825	236,102	1,699,052
Total liabilities \$	4,918,635	1,954,398	7,237,802	5,636,250	19,747,085	5,377,969	-	7,134,198	6,063,924	18,576,091
Capital expenditures \$	-	-	(19,969)	-	(19,969)	(236,515)	-	(178,406)	-	(414,921)

	Three months ended June 30									
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Argentina		Azerbaijan		Italy		Other		Total	
Revenue \$	80,755	803,577	-	-	167,960	167,772	-	-	248,715	971,349
Royalties	7,500	72,322	-	-	-	-	-	-	7,500	72,322
Operating and transportation	157,172	326,927	110,056	-	42,169	49,857	-	-	309,397	376,784
General and administrative	98,457	254,606	109,619	-	113,340	105,569	282,076	331,387	603,492	691,562
Depletion and depreciation	9,577	36,353	-	-	43,733	64,288	-	-	53,310	100,641
Finance and other (income) expenses	(14,014)	(76,589)	(618,145,430)	-	13,559	5,002	1,915	149,642	(618,143,970)	78,055
Segment income (loss) \$	(177,937)	189,958	617,925,755	-	(44,841)	(56,944)	(283,991)	(481,029)	617,418,986	(348,015)