



ZENITH ENERGY LTD.

UNAUDITED INTERIM FINANCIAL INFORMATION FOR THREE MONTHS ENDED 30 JUNE 2017 AND
COMPARATIVE PERIOD (30 JUNE 2016).

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, 2017.

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, 2017 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) "Luca Benedetto"
Chief Financial Officer

August 14, 2017

Calgary, Alberta

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HIGHLIGHTS

Highlights for the three months ended June 30, 2017 include the following:

- a) The Company generated oil and natural gas revenue, net of royalties, of CAD\$ 1,540k and CAD\$ 127k of electricity in the three months ended June 30, 2017 versus CAD\$ 100k and CAD\$ 141k, respectively, in the comparative 2016 period with an increase of 691% in revenues.
- b) The Company sold 23,390 barrels of oil from its assets in Azerbaijan.
- c) The Company sold 4,790 MCF of natural gas from its Italian production assets.
- d) The Company sold 223 barrels of condensate from its Italian assets, as compared to 184 barrels of condensate in the corresponding period of 2016, recording a production increase of 21%.
- e) The Company sold 2,522 MWh of electricity from its Italian assets, as compared to 2,718 MWh produced in the corresponding period of 2016.

POST-PERIOD HIGHLIGHTS

- a) On July 06, 2017 the terms of the repayment of the USD \$320k (CAD \$416) Credit Agreement were amended and first repayment of principal of USD \$80k has been moved to the end of July.
On July 31, 2017 USD \$20k (CAD \$21) were repaid, and the balance of US \$60k (CAD \$63) will be paid on September 1, 2017.
- b) On July 14, 2017 the Company entered into an agreement to proceed with a brokered private placement to raise gross proceeds of GBP 265k (approximately CDN\$ 438k) through the issue of 3,533,333 new common shares of no par value in the capital of the Company at a price of £0.075 (approximately CDN\$ 0.123956) per share. The Company also paid finder's fee for GBP 13k (approximately CDN\$ 22k).
- c) On August 2, 2017 the Company entered into an agreement to proceed with a brokered private placement to raise gross proceeds of £250k (approximately CDN\$ 410k) through the issue of 3,333,333 new common shares of no par value in the capital of the Company at a price of £0.075 (approximately CDN\$ 0.1230606) per share. The Company also paid finder's fee for GBP 12k (approximately CDN\$ 21k).

CEO'S STATEMENT

Zenith Chief Executive Officer, Andrea Cattaneo, commented:

"As a Canadian listed company, we file quarterly results as per TSX and Alberta Security Commission rules.

This quarterly set of results once again evidences the transformational impact of Zenith's Azerbaijan acquisition just over a year ago.

An indication of the Company's substantial revenue improvement had already been provided to the market in the form of our audited annual report and financial statements for the year ended March 31, 2017.

It is clear that we have a prosperous journey ahead and our firm intention is to significantly increase Zenith's oil production revenue in Azerbaijan by undertaking a series of systematic high-impact well interventions across our 642.4 km² contract area. The Company's long-term ambition is to become a mid-tier international energy production company.

I am very excited about Zenith's future and I look forward to reporting even stronger numbers in the next set of quarterly results."

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Consolidated Statement of Comprehensive Income

Continuing operations

		Three months ended	
		30 June 2017	30 June 2016
	<i>Note</i>	CAD \$'000	CAD \$'000
Revenues	22	1,667	249
Royalties		-	(8)
Cost of Sales			
Production costs		(903)	(310)
Depletion and depreciation	7	(325)	(53)
Gross Profit / (Loss)		439	(122)
Gain on business acquisition		-	618,145
Administrative expenses	4	414	(603)
Operating Profit / (Loss)		853	617,420
Fair value movements		-	-
Foreign exchange		-	123
Net Interest expense	5	(162)	(124)
Profit/(Loss) for the period before taxation		691	617,419
Taxation	6	-	-
Profit/(Loss) for the period from continuing operations		691	617,419
(Loss)/Profit from discontinued operations, net of tax		-	-
Profit/(Loss) for the period		691	617,419
Other Comprehensive Income			
Items that may be subsequently reclassified to profit or loss:		-	-
Exchange differences on translating foreign operations, net of tax		(376)	(8,350)
Total Comprehensive Income for the period attributable to owners of the parent		315	609,069
Earnings per share (CAD \$)	20		
Basic from profit / (loss) for the period		0.01	11.56
Diluted from profit / (loss) for the period		0.01	6.49
From continuing operations – basic		0.01	11.56
From continuing operations – diluted		0.01	6.49

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Consolidated Statement of Financial Position

		Three months ended	
		30 June 2017	30 June 2016
ASSETS	Note	CAD \$'000	CAD \$'000
Non-current assets			
Property, plant and equipment	7	1,072,760	626,088
Capitalised expenses	8	1,692	-
Other financial assets	9	435	163
		1,074,887	626,251
Current Assets			
Inventory	19	216	176
Trade and other receivables	22	1,662	889
Financial instruments at fair value through profit or loss	12	0	413
Cash and cash equivalents		2,737	78
		4,615	1,556
TOTAL ASSETS		1,079,502	627,807
EQUITY AND LIABILITIES			
Equity attributable to equity holders for the parent			
Share capital	10	17,382	10,135
Share warrants and option reserve	11	1,704	2,223
Contributed surplus		2,232	2,231
Retained earnings / (deficit)		554,324	593,471
Total equity		575,642	608,060
Non-current liabilities			
Borrowings	13	2,578	579
Deferred consideration payable	15	484,034	-
Convertible loans	14	385	874
Decommissioning provision	16	7,980	9,663
Deferred tax liabilities	6	2,398	884
Total non-current liabilities		497,375	12,000
Current Liabilities			
Trade and other payables	22	2,954	3,104
Oil share agreement		-	1,030
Borrowings	13	3,091	3,211
Deferred consideration payable	15	440	-
Convertible loans	14	-	402
Total current liabilities		6,485	7,747
TOTAL EQUITY AND LIABILITIES		1,079,502	627,807

The notes on pages 11 to 43 form part of the Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 14 August 2017 and are signed on its behalf by: **Andrea Cattaneo, Chief Executive Officer**

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Consolidated Statement of Changes in Equity	Share capital	Warrants and share option reserve	Contributed surplus	Retained earnings / (deficit)	Total
	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000
Balance as at 1 April 2016	9,578	1,510	2,231	(15,598)	(2,279)
Income/(loss)	-	-	-	609,069	609,069
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	609,069	609,069
Share issue net of costs - conversion of loan notes	300	-	-	-	300
Share issue net of costs – debt settlement	45	-	-	-	45
Share issue net of costs - private placement	925	-	-	-	925
Value of warrants issued	(713)	713	-	-	-
Expired options	-	-	-	-	-
Total transactions with owners recognised directly in equity	557	713	-	-	1,270
Balance as at 30 June 2016	10,135	2,223	2,231	593,471	608,060

Consolidated Statement of Changes in Equity	Share capital	Warrants and share option reserve	Contributed surplus	Retained earnings / (deficit)	Total
	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000
Balance as at 1 April 2017	17,229	1,877	2,332	554,009	575,447
Income/(loss)	-	-	-	315	315
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	315	315
Share issue net of costs - conversion of loan notes	-	-	-	-	-
Share issue net of costs – debt settlement	-	-	-	-	-
Share issue net of costs - private placement	-	-	-	-	-
Share issue - exercise of options	153	(153)	(100)	-	(100)
Expired options	-	(20)	-	-	(20)
Total transactions with owners recognised directly in equity	-	(20)	-	-	(20)
Balance as at 30 June 2017	17,382	1,704	2,232	554,324	575,642

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Reserve	Description and purpose
Share capital	Amount subscribed for share capital
Warrants and share option reserve	Relates to possible increase in equity for options issued
Combined surplus	Comulative earning from non-operational sources
Retained earnings (deficit)	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

The notes on pages 11 to 43 form part of the Financial Statements

Consolidated statement of cash flows

		Three months ended	
		30 June 2017	30 June 2016
OPERATING ACTIVITIES	Note	CAD \$'000	CAD \$'000
Profit/(Loss) for the period before taxation		691	617,419
Items not involving cash:		-	-
Shares issued for services		-	45
Shares issued for accrued interest		-	-
Gain on sale of marketable securities		-	-
Fair value adjustment on marketable securities		-	-
Foreign exchange		(561)	102
Gain on business combination		-	(618,145)
Fair value adjustment on derivative liability		-	-
Depletion and depreciation		325	53
Capitalization of expenses		(1,781)	-
Impairment of property and equipment		-	2
Other expense		-	-
Finance expense		162	18
Change in working capital	18	32	(375)
Net cash used in operating activities		(1,132)	(881)
INVESTING ACTIVITIES			
Proceeds on sale of marketable securities		-	-
Cash on disposal of subsidiary		-	-
Purchases of property, plant and equipment		-	(20)
Change in working capital	2	-	2
Net cash used in investing activities		-	(18)
FINANCING ACTIVITIES			
Repayment of notes payable		-	(83)
Proceeds from issue of shares, net of transaction costs		-	925
Proceeds from issue of bonds		-	-
Proceeds from exercise of options	10	153	-
Repayments of loans		(208)	-
Proceeds from loans		-	-
Net cash generated from financing activities		(55)	842
Net increase/(decrease) in cash		(1,187)	(57)
Foreign exchange effect on cash held in foreign currencies		-	(3)
Cash at beginning of the period		3,924	138
Cash at end of the period		2,737	78

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Notes to the consolidated and combined financial information

1. Corporate and Group information

Corporate Information

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

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

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

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

2. Basis of preparation

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

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

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

Presentation and functional currency

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

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

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

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

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

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

Going concern

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

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

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

New standards and interpretations not yet adopted

1. adoption of new and revised standards

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

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

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

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

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

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

3. Significant accounting policies

Consolidation

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

Name	Country of incorporation	Proportion of ownership interest	Principal activity
Canoel Italia S.r.l.	Genova, Italy	98.6%	Gas, Electricity and Condensate production
Ingenieria Petrolera del Rio de la Plata S.r.l.	Argentina	100%	Oil Services

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<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest</i>	<i>Principal activity</i>
Zenith Aran Oil Company Limited	British Virgin Islands	100%	Oil production
Aran Oil Operating Company Limited	British Virgin Islands	80% owned subsidiary of Zenith Aran Oil Company Limited	Oil production
Altasol SA	Switzerland	100%	Trading

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

Business combinations

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

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

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

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

Foreign currency translation

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

The financial results and position of foreign operations whose functional currency is different from the

presentation currency are translated as follows:

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

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

Cash

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

Inventory

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

Property, plant and equipment

Development and production expenditures

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

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

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

Subsequent costs

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

Depletion and depreciation

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves,

as determined by an independent reserve engineer, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office furniture and equipment

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

Impairment

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

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

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

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

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

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

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

Decommissioning provision

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

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

Taxation

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Financial instruments

Non-derivative financial instruments

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

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in

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accordance with the Group's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred.

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

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

Other

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

Deferred consideration liability

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

Compound financial instruments

Compound financial instruments include convertible notes which can be converted into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognised as the fair value of the liability without the conversion feature, which is calculated using inputs that fall within level 1 of the fair value hierarchy of IFRS 13. The equity component is recognised as the difference between the fair value of the convertible debt and the fair value of the liability component.

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

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

Impairment of financial assets

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

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

share similar credit risk characteristics.

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

Share capital

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

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

Share-based payments

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

Earnings per share

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

Revenue recognition

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

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

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

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Finance income and expense

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

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

Leases

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

4. Administrative Expenses

General and administrative expenses for the three months ended June 30, 2017 and 2016 are composed of the following:

	Three months ended 30 June	
	2017	2016
	CAD \$'000	CAD \$'000
Professional fees	535	58
<i>External Audit Remuneration fees</i>	27	-
<i>Legal fees</i>	121	1
<i>Accountancy fee</i>	125	31
<i>Consultancy</i>	248	14
<i>Other fees</i>	14	12
Office	148	103
<i>Office rental</i>	36	34
<i>Other expenses</i>	112	69
Administrative	226	65
<i>Administrative services</i>	138	15
<i>Other expenses</i>	88	50
Salaries and benefits	348	173
<i>Consulting fees</i>	89	77
<i>Salaries</i>	238	72
<i>Other expenses</i>	21	24
Travel	110	204
Capitalization of expenses	(1,781)	-
TOTAL	(414)	603

Finance expense

	Three months ended 30 June	
	2017	2016
	CAD \$'000	CAD \$'000
Interest on borrowings	150	106
Accretion of decommissioning obligation	12	16

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Accretion of convertible notes	-	-
Accretion of bonds	-	2
Net finance expense from continuing operations	162	124

5. Taxation

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

	2017	2016
	CAD \$'000	CAD \$'000
Current tax	0	0
Deferred tax	0	0
Total tax (credit)/ charge for the period	0	0

The tax (credit) charge for the three months ended Jun 30, 2017 comprised CAD \$Nil (2016 – CAD \$Nil) of current tax expense and CAD \$Nil deferred tax reduction (2016 – CAD \$1,514k deferred tax reduction).

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

As at June 30, 2017, the Group has accumulated non-capital losses in Canada totaling CAD \$18,198k (2016 - CAD \$15,200k) which expire in varying amounts between 2028 and 2037 and CAD \$400k (2016 – CAD \$400k) of non-capital losses in Italy.

6. Property, plant and equipment

	D&P Assets
	CAD \$'000
Carrying amount at April 1, 2016	14,598
Additions	20
Acquisitions (business combination)	611,899
Disposals	-
Depreciation	(53)
Impairment	-
Decommissioning obligation	(2)
Foreign exchange differences	(374)
Carrying amount at June 30, 2016	626,088
Carrying amount at April 1, 2017	1,072,993
Additions	92
Disposals	-
Depreciation	(325)
Impairment	-
Decommissioning obligation	-
Foreign exchange differences	-
Carrying amount at June 30, 2017	1,072,760

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

Business combination year 2016

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 2016.

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") 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\$'000
D&P assets	611,899
Foreign currency translation	8,189
Decommissioning obligations	<u>(1,943)</u>
Gain on business combination	618,145

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.

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As there are no costs for the acquisition, due to the fair value of the net assets acquired the Company recognised a CAD \$618,145k 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 \$1,943k 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 \$618,145k measurement adjustment in the first quarter of year 2017 consolidated statement of income (loss) and comprehensive income (loss) using prevailing exchange rates..

7. Capitalised expenses

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

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

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

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

To achieve these 2 important milestones, the Company paid expenses that were recorded in past quarters and capitalised during the three months ended June 30, 2017 as follows:

	Azerbaijan	LSE Listing
	Costs between Sept 2014 and Aug 2016 specific to Azerbaijan	All costs between March 2016 and March 2017 specific to LSE
Total Consulting	484	147
Total Travel	36	355
Total Legal	38	377
Total Accounting and bookkeeping	-	108
Total LSE Listing	-	236
TOTAL (CAD\$'000)	558	1,223

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Capitalised Expenses	CAD \$'000
Carrying amount as at April 1, 2017	-
Additions	1,781
Depreciation	(89)
Foreign exchange differences	-
Carrying amount as at June 30, 2017	1,692

8. Other financial assets

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

9. Share Capital

Zenith is authorised to issue an unlimited number of Common Shares, of which 117,596,480 were issued as at June 30, 2017 (June 30, 2016 – 58,723,806). Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of these financial statements.

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

Issued

	Number of common shares	Amount CAD \$'000
Balance – 31 March 2016	43,594,406	9,578
Non-brokered unit private placement (i)	6,674,775	534
Finder's fee	-	(27)
Non-brokered unit private placement (ii)	3,892,875	311
Finder's fee	-	(15)
Conversion of convertible notes (iii)	2,730,000	300
Settlement of debt (iv)	312,500	31
Non-brokered unit private placement (v)	1,519,250	122
Finder's fee	-	(6)
Balance – 30 June 2016	58,723,806	10,828
Non-brokered unit private placement (vi)	1,906,050	191
Finder's fee	-	(10)
Settlement of debt (vii)	1,049,235	88
Non-brokered unit private placement (viii)	2,745,062	329

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Finder's fee	-	(4)
Settlement of debt (ix)	150,000	12
Admission LSE placement (x)	33,322,143	3,783
Fair value of warrants issued	-	(77)
Finder's fee	-	(200)
Settlement of debt (xi)	668,571	78
Non-brokered unit private placement (xii)	9,000,000	1,399
Finder's fee	-	(70)
Conversion of convertible notes (xiii)	3,700,000	407
Settlement of debt (xiii)	505,263	72
Conversion of convertible notes (xiv)	1,637,100	164
Conversion of convertible notes (xv)	2,170,000	239
Balance – 31 March 2017	115,577,230	17,229
Exercise of stock option (xvi)	1,000,000	-
Exercise of warrants (xvii)	1,019,250	153
Balance – 30 June 2017	117,596,480	17,382

- i) On April 11, 2016 the Group completed the private placement of 6,674,775 shares at CAD\$0.08 per unit for gross proceeds of CAD\$534k. Of the 6,674,775 shares, 5,000,000 shares were issued forming part of a unit comprising one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD\$0.15 per common share for a period of 24 months from the date of issuance. The remaining 1,674,775 shares were not issued with accompanying warrants. The Group also paid aggregate finders' fees of CAD\$27k.
- ii) On April 21, 2016, the Group completed the private placement of 3,892,875 shares at CAD\$0.08 per unit for gross proceeds of CAD\$311k. Each unit is comprised of one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD\$0.15 per common share for a period of 24 months from the date of issuance. The Group also paid aggregate finders' fees of CAD\$15k and issued 179,712 warrants to certain arm's-length parties in the connection with the Private Placement.
- iii) On June 9, 2016, the Group issued 2,730,000 shares at a deemed price of \$0.11 per share in partial conversion of convertible notes \$300k (Note 10), and 312,500 shares at a price of \$0.10 per share creditors of the Corporation to settle debts owing by the Group totaling \$31k.
- iv) On June 16, 2016 the Group has closed a non-brokered private placement of 1,519,250 shares of the Group at a price of \$0.08 per Unit for aggregate gross proceeds of \$122k. Each unit is comprised of one common share and one common share purchase warrant. Each Warrant will be exercisable for one Common Share at a price of \$0.15 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD\$6k.

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

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

- x) On January 11, 2017 the Group issued 668,571 shares, at a deemed price of £0.07 per share, for the settlement of a debt for services of a senior manager of the Company, for an amount of £47k (\$78).
- xi) On January 30, 2017, the Group entered into an agreement to proceed with a brokered private placement (the "Private Placement") to raise gross proceeds of GBP 855k (approximately CAD\$ 1,399k) through the issue of nine million (9,000,000) new common shares of the Group at a price of GBP 0.095 (approximately CAD\$ 0.1565) per share. In

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addition to the New Common Shares, under the Private Placement each subscriber received one warrant (the "Warrant") for every New Common Share purchased. Each Warrant shall entitle the Warrant holder to subscribe for new Common Shares in the Group at a price of GBP 0.15 per common share (approximately CAD\$ 0.247), exercisable at any time until 1 February 2019. The Company also paid aggregate finders' fees of CAD\$70k.

- xii) On January 30, 2017 the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 3,700,000 Common Shares of Zenith with an aggregate value of CDN\$ 407k (approximately £247k). The terms of this conversion were comprehensively outlined in the Prospectus issued by the Group on January 2017, stating that the conversion mechanism requires a conversion price of CDN\$ 0.11 (£0.0677).
- xiii) On March 14, 2017 the Group issued 505,263 common shares in the capital of the Corporation at a deemed price of \$0.1425 per Common Share, to settle certain debts owing by the Corporation. The Group further confirms that the debts have been fully paid, with the balance being settled in cash. The Common Shares issued pursuant to the Share Settlement are subject to a four-month hold period.
- xiv) On March 21, 2017 Gunsynd PLC elected to fully convert its GBP£100k principal amount unsecured convertible note into common shares of the Group at the conversion price of CAD\$0.10, as outlined in the Group's prospectus published on January 2017. Upon conversion of the Convertible Note 1,637,100 Common Shares will be issued to Gunsynd. This fully extinguishes Zenith's GBP convertible debt.
- xv) On March 21, 2017 the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 2,170,000 Common Shares of Zenith with an aggregate value of CDN\$ 239k (approximately £143k). The terms of this conversion were comprehensively outlined in the Prospectus issued by the Group on January 2017, stating that the conversion mechanism requires a conversion price of CDN\$ 0.11 (£0.06588).
- xvi) On May 25, 2017 the Group announced that following the its announcement on February 22, 2017 that a Director of the Group had exercised an option to acquire 1,000,000 new Common Shares in the capital of the Group, the Option Shares have been issued on May 23, 2017 following confirmation by Mr. Regis Milano of the custodian to whom they should be issued.
- xvii) On June 29, 2017 an investor in the Company has exercised warrants to acquire 1,019,250 new common shares of no par value in the capital of the Company. The exercise price of the warrant was C\$0.15 per share, and the total consideration received C\$153k (approximately £91k).

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10. Warrants and Options

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD \$'000
Balance – 31 March 2016	-	29,638,898	0.23	1,510
Unit private placements	-	12,591,612	0.15	-
Unit private placements	-	4,651,112	0.20	-
Unit private placements	-	1,114,286	0.11	77
Unit private placements	-	9,000,000	0.24	-
Options issued	6,000,000	-	0.10	290
Options exercised	(1,000,000)	-	0.10	-
Balance – 31 March 2017	5,000,000	56,995,908	0.21	1,877
Options issued	2,750,000	-	0.15	200
Options exercised	-	(1,019,250)	0.15	(153)
Expired	-	(7,533,833)	(0.25)	(220)
Balance – 30 June 2017	7,750,000	48,442,828	0.20	1,704

As at June 30, 2017, the Group had 48,442,828 warrants outstanding (relating to 48,442,828 shares) and exercisable at a weighted average exercise price of \$0.20 per share with a weighted average life remaining of 0.90 years. Subsequent to June 30, 2017 there were warrant expirations in July for no.1,293,334. These warrants had an exercise price of \$0.25 per share.

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

During April 2017, there were 2,750,000 options granted to Zenith's officers, directors, employees and consultants. Each option entitles the holder to acquire one share for \$0.15 per share for the period ending April 2022. These were also valued using the Black Scholes model. The inputs to the calculation were as follows; stock price of CAD \$0.07, exercise price of CAD \$0.15, volatility of 100% and a monthly risk free rate of 0.53%.

11. Financial assets at fair value through profit or loss

(a) Equity securities

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

Equity securities	Three monthd ended June 30	
	2017 CAD \$'000	2016 CAD \$'000
As at 1 April	8	34
Sale	(11)	-
Gain on sale	4	-
FV movement	-	(27)
Foreign exchange	(1)	1
As at 30 June	-	8

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

(b) Bonds

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

Bonds	2017	2016
	CAD \$'000	CAD \$'000
As at 1 April	-	203
Additions	-	110
Sale	-	(365)
(Loss) on sale	-	22
FV movement	-	27
Foreign exchange	-	3
As at 30 June	-	-

12. Loans and Notes payable

	Three monthd ended June 30	
Loans and Notes payable	2017	2016
	CAD \$'000	CAD \$'000
Loan payable – current	3,091	3,211
Loan payable – non-current	2,578	579
Total	5,669	3,790

(a) Notes payable

	Three monthd ended June 30	
Notes payable	2017	2016
	CAD \$'000	CAD \$'000
As at 1 April	-	83
Loan receipt	-	-
Change adjustment	-	-
Interest	-	-
Repayment	-	(83)
As at 30 June	-	-

(b) Borrowings

	Three monthd ended June 30	
	2017	2016
Loans – current	CAD \$'000	CAD \$'000
As at 1 April	973	3,210

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Loan receipt	135	-
Transfer between current / non-current	1,994	95
Repayments	(208)	(200)
Interest	150	106
Foreign exchange	47	-
As at 30 June	3,091	3,211

	Three monthd ended June 30	
	2017	2016
	CAD \$'000	CAD \$'000
Loans – non current		
As at 1 April	4,527	674
Loan receipt	-	-
Transfer between current / non-current	(1,994)	(95)
Interest	-	-
Repayment	-	-
Foreign exchange	45	-
As at 30 June	2,578	579

a) USD loan payable

As at March 31, 2017, the Group was indebted to a third party lender for a USD 1,485k (\$1,994) loan payable secured by the shares of its wholly owned subsidiary, IPP, and bearing fixed interest at 10% per annum.

The President, CEO and Director of the Group, has provided a personal guarantee to the lender in respect of the repayment of the USD Loan by the Group and the final payment of approximately USD\$1,485k is repayable on April 30, 2018.

As at June 30, 2017, \$1,485k (June 30, 2016 – \$1,994k) of principal is classified as a current liability and \$379k (June 30, 2016 – \$227k) of accrued interest is included in trades and other payables.

b) Euro bank debt

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

As at June 30, 2017 the principal balance of the loan was €148k (CAD\$220k) of which \$66k is classified as a current liability and \$154k is classified as non-current.

c) Euro bank debt

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

As at June 30, 2017 the principal balance of the loan was €123k (CAD\$182k) of which \$82k is classified as a current liability and \$100k is classified as non-current.

d) Euro loan payable

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

and interest until March 31, 2018.

As at June 30, 2017, the principal balance of the loan was €137k (CAD\$205k) of which \$205k is classified as a current liability.

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

On April 05, 2017, the Group's wholly-owned subsidiary, Zenith Aran, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("Rabitabank") up to an amount of USD \$320k (CAD \$416), for industrial and production purposes. The loan drawn down in one tranche and as at 06 April 2017 it was fully drawn down. Rabitabank can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown or if the REDPSA is terminated.

This Credit Agreement bears interest at a rate of 11% per annum. The loan is guaranteed by the Group. The loan granted for one year period. The 25% of the principal amount should be paid on quarterly basis. The amount of interest to be paid on monthly basis. As of June 30, 2017 the amount of USD \$320k (CAD \$416) plus accrued interest was still outstanding, it is classified as a current liability.

On July 06, 2017 the terms of the repayment of the USD \$320k (CAD \$416) Credit Agreement were amended and first repayment of principal of USD \$80k has been moved to the end of July.

On July 31, 2017 USD \$20k (CAD \$21) were repaid, and the balance of US \$60k (CAD \$63) will be paid on September 1, 2017.

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

On April 12, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to an amount of USD \$200k (CAD \$260). The Seventh Credit Agreement bears interest at a rate of 10% per annum. The loan granted for one year period and the principal amount of the loan will be paid at the end of the period. The amount of interest is paid monthly. The loan is guaranteed by the Group.

As of June 30, 2017 the amount of USD \$200k (CAD \$260) plus accrued interest was still outstanding, it is classified as a current liability.

g) Swiss loan CHF 837,500

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

As at June 30, 2017 the principal balance of the loan was CHF760k (CAD\$ 1,033k) of which CAD \$68k is classified as a current liability and CAD \$965k is classified as non-current.

h) Swiss loan CHF 1,000,000

On March 30, 2017 the Group acquired the Swiss based company Altasol SA, and assumed a loan subscribed by the former owner on December 21, 2015 for the initial amount of CHF1,000k (CAD \$1,359k). The loan bears interest at a rate of 2.2% per annum. The loan is repayable on July 02, 2019 (plus accrued interest). As at June 30, 2017 the principal balance of the loan was CHF1,000k (CAD\$ 1,359k) and is classified as a non-current liability.

13. Convertible loans

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Loans and Notes payable	Three monthd ended June 30	
	2017	2016
	CAD \$'000	CAD \$'000
Bond – non current	385	541
Convertible Notes – current	-	402
Convertible Notes – non-current	-	333
Total	385	1,276

Loans and Notes payable	Three monthd ended June 30	
	2017	2016
	CAD \$'000	CAD \$'000
Current	-	402
Non-current	385	874
Total	385	1,276

BOND	Three months ended 30 June	
	2017	2016
	CAD \$'000	CAD \$'000
Balance – April 1	385	563
Interest	-	16
Accretion	-	2
Conversion	-	-
Repayments	-	-
Foreign currency translation	-	(40)
Balance – June 30	385	541

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

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

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

Risk-free interest rate	0.50% - 0.70%
Expected volatility	75%

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Expected life
Dividends

3 years
Nil

As of June 30, 2017 the outstanding accrued bond interest was CAD\$10k.

Convertible Notes

	Debt component CAD\$'000	Derivative liability CAD\$'000	Face value CAD\$'000
Balance – 01 April 2016	697	358	731
Modification	-	-	-
Conversion	(275)	(25)	(300)
Change in fair value	-	-	-
Accretion	-	-	-
Foreign exchange	(20)	-	(16)
Balance – 30 June 2016	402	333	415

	Debt component CAD \$'000	Derivative liability CAD \$'000	Face value CAD \$'000
Balance – 31 March 2016	-	-	-
New subscriptions	-	-	-
Conversion	-	-	-
Change in fair value	-	-	-
Accretion	-	-	-
Foreign exchange	-	-	-
Balance – 30 June 2017	-	-	-

- On 7 July 2015, the Group amended the terms of the convertible notes whereby the conversion price was reduced from \$0.215 per share to \$0.125 per share and the rate of interest was reduced from 9% to 5%. The amended conversion price was based on the 7 July 2015 closing market price of the Group's shares. The effect of the amendments was not a substantial modification resulting in the de-recognition of the original liability and the recognition of a new liability. The reduction of the interest rate has been accounted for as a modification of the effective interest rate and amortised cost of the debt component and the reduction of the conversion price has been accounted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be \$231k on the date of modification.
- On 28 August 2015, CHF 80k Swiss Francs (CAD \$111k) principal amount of convertible notes were converted into 882,640 common shares resulting in the revaluation of the derivative liability component at its fair value of \$23k and the recognition of a \$13k gain on conversion of convertible notes in the consolidated statement of loss and comprehensive loss for the year ended 31 March 2016.
- In June 2016, the Group issued 2,730,000 common shares on the conversion of 225k Swiss Francs (\$300k) principal amount of convertible notes (Note 10).
- On November 28, 2016, the Group formalised the previously reached agreement for the amendments of the terms of its 5% convertible notes. The proposed amendments to the notes

included an extension of two years to the maturity date from January 11, 2017 to January 11, 2019, a reduction to the conversion price from \$0.125 per common share to \$0.11 per common shares and a reduction to the interest rate payable by the Group from 5% to 1% for the remainder of the term. The proposed extension to the notes, and the reduction in the conversion price and interest rate remains subject to approval of the TSX Venture Exchange.

- On January 25, 2017 the Group issued 3,700,000 shares on the conversion of 311 Swiss Francs (CAD\$407k) principal amount of convertible notes.
- On March 21, 2017 the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 2,170,000 Common Shares of Zenith with an aggregate value of CDN\$ 239k (approximately £143k). As at June 30, 2017 there was CHF75k of accrued interest owing.

14. Deferred consideration payable

Deferred consideration comprises capital commitments acquired as part of the Azerbaijan business combination transaction. These liabilities are measured at the net present value of contracted future cash flows, as follows:

Compensatory oil

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

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

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

Capital Costs

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

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

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

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

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

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

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

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

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

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

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

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

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

DEFERRED CONSIDERATION PAYABLE

June 30, 2017
CAD\$'000

June 30, 2016
CAD\$'000

Compensatory Oil

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Current portion	138	-
Non-Current portion	5,739	-
Capital costs		
Current portion	302	-
Non-Current portion	478,295	-
As of 30 June	484,474	-
Deferred Consideration payable current	440	-
Deferred Consideration payable non-current	484,034	-
Total	484,474	-

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

15. Decommissioning obligation

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

	2017	2016
	CAD \$'000	CAD \$'000
Balance – 1 April	7,980	7,719
Business combination	-	1,943
Writeback on disposal of subsidiaries	-	-
Measurement adjustment	-	-
Change in estimate	-	-
Accretion	-	-
Foreign currency translation	-	1
Balance – 30 June	7,980	9,663

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

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

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

16. Staff cost

(a) *Employee compensation cost*

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

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

	Three months ended 30 June	
	2017	2012
	CAD \$'000	CAD \$'000
Operating	406	91
General and administrative	238	72
Total employee compensation cost	644	163

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

17. Change in working capital

	Three months ended 30 June	
	2017	2016
	CAD \$'000	CAD \$'000
Trade and other receivables	(38)	(122)
Inventory	78	(131)
Prepaid expenses	34	(26)
Prepaid property and equipment insurance	-	35
Trade and other payables	(42)	(133)
Total change in working capital	32	(373)

18. Inventory

As at June 30, 2017 the inventory consists of CAD \$51k of crude oil that has been produced but not yet sold, and \$165k of materials (2016 – CAD \$176k crude oil and \$nil materials) .

	Three months ended 30 June			
	2017		2016	
	Barrels	CAD \$'000	Barrels	CAD \$'000
Argentina	-	-	2,462	176
Azerbaijan	131	51	-	-
Azerbaijan – materials	-	165	-	-
		216		176

19. Earnings per share:

	Three months ended 30 June	
	2017	2016
	CAD \$'000	CAD \$'000

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	Net profit (loss)	619	617,419
Basic weighted average number of shares ('000)		115,944	58,884
Potential dilutive effect on shares issuable under warrants ('000)		48,443	42,231
Potential diluted weighted average number of shares ('000)		164,387	101,115
Net Profit (loss) per share – basic (1)	\$	0.01	\$ 11.56
Net Profit (loss) per share – diluted		0.01	6.49
Net Profit (loss) per share continuing operations – basic	\$	0.01	\$ 11.56
Net Profit (loss) per share continuing operations – diluted		0.01	6.49

⁽¹⁾ The Group did not have any in-the-money convertible notes, warrants and stock options during the years ended June 30, 2017 and 2016. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

20. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognised at fair value. Related party transactions during the three months ended June 30, 2017 and 2016 not disclosed elsewhere in these consolidated financial statements are as follows:

- Included in general and administrative expenses for the three months ended 30 June 2017 is CAD \$41k (2016 – CAD \$41k) charged by a director of the Group for administrative services. As at June 30, 2017, CAD \$ nil (2016 – CAD \$Nil) was included in trade and other payables in respect of these charges.
- Included in trade and other payables is CAD \$ nil (2016 – CAD \$37k) due to a Director of the Group in respect of general and administrative expenditures made on behalf of the Group for which the officers and directors will be reimbursed.
- Included in trade and other payables is CAD \$ nil (2016 – CAD \$30k) due a Director of the Group in respect of salaries.

21. Financial risk management

	2016	2017
Financial Assets	CAD \$'000	CAD \$'000
Trade and other receivables	1,662	889
Cash and cash equivalents	2,737	78
Financial instruments at fair value through profit or loss	-	413
Total financial assets	4,399	1,380

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

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

The Group's policy is to maintain an appropriate financial position to sustain future development of the business. There were no changes to the Group's capital management approach until the three months ended June 30, 2017.

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

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

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

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Group's maximum credit risk exposure is limited to the carrying amount cash of CAD \$2,737k (2016 – CAD \$78k) and trade and other receivables of CAD \$1,662k (2016 – CAD \$889k).

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

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

	2017	2016
	CAD \$'000	CAD \$'000
Oil and natural gas sales	1,454	507
Stamp tax and other tax withholdings	37	15
Goods and services tax	72	157
Other	99	210
	1,662	889

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 Azerbaijan and Italy. Oil and natural gas sales receivables are typically collected in the month following the sales month.

The Group's receivables are aged as follows:

	2017	2016
	CAD \$'000	CAD \$'000
Current	1,662	564

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90 + days	-	325
	1,662	889

b) Liquidity risk

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

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

As of June 30, 2017 the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying Amount	Contractual cash flow	Due on or before 30 June 2018	Due on or before 30 June 2019	Due after 30 June 2019
	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000
Trade and other payables	2.881	2.881	2.881	-	-
Loan payable	5.669	6.621	998	3.109	2.514
Bonds payable	385	423	45	378	-
Deferred consideration	484.474	1.191.428	1.544	10.076	1.179.808
	493.409	1.201.353	5.468	13.563	1.182.322

c) Currency risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange rates to Canadian dollars for the noted dates (30 June 2017 and 2016) and periods (three months ended 30 June 2017 and 2016) are as follows:

	Closing rate		Average rate	
	2017	2016	2017	2016
US dollars	1.3453	1.3009	1.3453	1.2889
Euro	1.4886	1.4354	1.4782	1.4533
Swiss Franc	1.3594	1.3240	1.3647	1.3478
British Pound	1.6890	1.7347	1.7191	1.8486

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at June 30, 2017 and 2016 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

	2017 CAD \$'000	2016 CAD \$'000
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US dollars	288	291
Euro	85	183
Swiss Franc	242	74
British Pound	39	46
	<u>654</u>	<u>594</u>

d) Commodity price risk

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

As at June 30, 2017 a 5% change in the price of natural gas produced in Italy would represent a change in net income for the three months ended June 30, 2017 of approximately CAD \$3k (2016 – CAD \$1k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the three months ended June 30, 2017 of approximately CAD \$10k (2016 – CAD \$7k).

As at June 30, 2017, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net profit (loss) for the year ended June 30, 2017 of approximately \$72k (2016 – CAD \$4k).

e) Interest rate risk

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

22. Capital management

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

	2017	2016
	CAD \$'000	CAD \$'000
Working capital (deficiency)	(1,867)	(6,191)
Long-term debt	2,963	1,453
Shareholders' equity	575,642	(1,895)

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

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

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23. Operating segments

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

The Group has four reportable segments which are as follows:

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

YEAR 2016	Argentina CAD \$000	Azerbaijan CAD \$001	Italy CAD \$000	Other CAD \$000	Total CAD \$000
Property and equipment	3,116	611,899	11,073	-	626,088
Other assets	440	17	952	309	1,718
Total liabilities	4,919	1,954	7,238	5,636	19,747
Capital Expenditures	-	-	(20)	-	(20)
Revenue	81	-	168	-	249
Royalties	(8)	-	-	-	(8)
Operating and transportation	(158)	(110)	(42)	-	(310)
General and Administrative	(99)	(109)	(113)	(282)	(603)
Depletion and depreciation	(9)	-	(44)	-	(53)
Impairment of property and equipment	-	-	-	-	-
Other expense	-	618,145	-	-	618,145
Finance and other expenses	15	-	(14)	(2)	(1)
Segment (loss)/ income	(178)	617,926	(45)	(284)	617,419

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YEAR 2017	Azerbaijan CAD \$000	Italy CAD \$000	Other CAD \$000	Total CAD \$000
Property and equipment	1,064,491	8,264	5	1,072,760
Other assets	25	420	1,712	2,157
Total liabilities	488,127	7,387	8,135	503,649
Capital Expenditures	-	-	-	-
Revenue	1,448	219	-	1,667
Royalties	-	-	-	-
Operating and transportation	(745)	(158)	-	(903)
General and Administrative	(603)	(28)	1,045	414
Depletion and depreciation	(203)	(32)	(90)	(325)
Impairment of property and equipment	-	-	-	-
Other expense	-	-	-	-
Finance and other expenses	(38)	(8)	(492)	(538)
Segment (loss)/ income	(141)	(7)	463	315

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

		2017	2016
		CAD \$000	CAD \$000
Customer A		1,448	81
Customer B		-	141

24. Post Balance Sheet events

- a) On July 06, 2017 the terms of the repayment of the USD \$320k (CAD \$416) Credit Agreement were amended and first repayment of principal of USD \$80k has been moved to the end of July.
On July 31, 2017 USD \$20k (CAD \$21) were repaid, and the balance of US \$60k (CAD \$63) will be paid on September 1, 2017.
- b) On July 14, 2017 the Company entered into an agreement to proceed with a brokered private placement to raise gross proceeds of GBP 265k (approximately CDN\$ 438k) through the issue of 3,533,333 new common shares of no par value in the capital of the Company at a price of £0.075 (approximately CDN\$ 0.123956) per share. The Company also paid finder's fee for GBP 13k (approximately CDN\$ 22k).
- c) On August 2, 2017 the Company entered into an agreement to proceed with a brokered private placement to raise gross proceeds of £250k (approximately CDN\$ 410k) through the issue of 3,333,333 new common shares of no par value in the capital of the Company at a price of £0.075 (approximately CDN\$ 0.1230606) per share. The Company also paid finder's fee for GBP 12k (approximately CDN\$ 21k).