ZENITH ENERGY LTD.

UNAUDITED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017 AND COMPARATIVE PERIOD (30 SEPTEMBER 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 six months ended September 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 and six months ended September 30, 2017, have been prepared by and are the responsibility of the management of the Company and have been approved by the Company's Board of Directors. 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"
Chief Executive Officer & President

(signed) "Luca Benedetto"
Chief Financial Officer

November 15, 2017

Calgary, Alberta

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HIGHLIGHTS

Highlights for the six months ended September 30, 2017 include the following:

a) During the three and six months ended September 30, 2017 the Company produced 23,095 and 47,954 bbls of oil from its assets in Azerbaijan. During the three and six months ended September 30, 2017 the Company sold 19,292 and 42,682 bbls of oil from its assets in Azerbaijan. There is no exact comparative data for the period ended September 30, 2016 because the effective handover data, and the consequent beginning.

At the end of September 2017, there were 2,588 bbls of unsold oil production in Azerbaijan held in inventory which were sold in subsequent months. Total oil sales, transfers of produced volumes to the Termap Oil Storage and oil held in inventory at the end of the period correspond to an average daily production rate for the three and six months ended September 30, 2017 of 251 and 262 bbls of oil per day.

b) During the three and six months ended September 30, 2017, the Company sold 4,831 and 9,621 mcf of natural gas from its Italian assets as compared to 6,306 and 15,867 mcf of natural gas in the equivalent period of 2016, with a decrease of 50%, due to the temporary interruption of production in the Lucera and Acquasalsa concessions for urgent maintenance.

c) During the three and six months ended September 30, 2017, the Company sold 264 and 488 bbls of condensate from its Italian assets as compared to 275 and 459 bbls of condensate in the 2016 similar periods, recording an increase of 6.5%.

d) During the three and six months ended September 30, 2017, the Company sold 2,741 and 5,263 MWh of electricity from its Italian assets as compared to 2,670 and 5,388 MWh of the same period in 2016, with a decrease of 2.3%. This was due to disruptions which affected production in June 2017 for maintenance of the plant.

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

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

The proceeds of this Private Placement funded the Company's purchase of new oil production equipment and provide general working capital.

g) On August 2, 2017, the Company closed a non-brokered private placement of 666,666 Common Shares at a price of CAD$0.1230606 per unit for aggregate gross proceeds of CAD$82k (approximately £50k). The Company also paid aggregate finders' fees of CAD$4k (approximately £2.5k).

The proceeds of this Private Placement funded the Company's purchase of new oil production equipment and provide general working capital.

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

The total value of the procurement contract between Kerui Petroleum and Zenith is USD$1,706k (approximately £1,325k; CAD$2,146k). The terms of payment have been defined in accordance with

INCOTERMS 2010, and will take place within 1 year of the contract's effective date. The contract stipulates that Zenith must pay 15 percent of the total contract value in advance as deposit.

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

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

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

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

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

k) On September 28, 2017 the Company announced that a Director of the Company had, in accordance with TSX Venture Exchange rules, partially swapped his salary for the first two quarters of the 2018 financial year for the equivalent of CAD$2.5K per month, for a total of CAD$15k (approximately £9k). As a result, the Director received 111,131 common shares in the capital of the Company at an average price of approximately CAD$0.14 per each for the period April 1, 2017 until September 30, 2017.

l) The Company incurred CAD$931k in capital expenditures in the six months ended September 30, 2017, especially related to the field rehabilitation and development programme underway in Azerbaijan.

POST-PERIOD HIGHLIGHTS

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

b) On October 16, 2017 a Director of the Company, Mr. Andrea Cattaneo, purchased 500,000 common shares of no par value in the capital of the Company at an average price of CAD$0.15591 per common share (approximately £0.09415), and a total cost of CAD$78k (approximately £47k).

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

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

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

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

Manufacturing of the Genesis BQ500 is scheduled to begin upon the fulfilment of the preliminary conditions detailed in the commitment letter. This is expected to take place in Quarter 4, 2017, with delivery anticipated in the second half of 2018.

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

g) On November 2, 2017 the Group was a founding party in a newly incorporated Italian company named 'Leonardo Energy Consulting S.r.l.'. The Group holds a 48 percent interest in the entity. The primary purpose of this subsidiary is the identification of business development opportunities in Central Asia and in the Middle East.

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

i) In November 2017 the repayment terms for the Euro Bank loan with GBM Banca of Rome, with an original value of €220k, were amended and the balance of the loan is now repayable in 60 months. The payments of the principal and interest will run on a monthly basis until October 2022.

CEO STATEMENT

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

Zenith Energy Ltd. focuses on the acquisition and development of proven onshore oil and gas fields where production has declined over time, but where significant untapped potential and increased productivity is possible. This can often be achieved through the injection of capital and the modernisation of oilfield infrastructure, as well as the application of latest-generataion technology and oil production practices. To maximise shareholder value, Zenith targets acquisitions of production opportunities which allow strong logistical support and close proximity to refineries and pipelines. Zenith's management and directors have extensive financial and governmental experience, as well as established petroleum industry technical experience, to successfully execute this strategy.

Zenith currently operates the largest onshore oilfield in Azerbaijan through its fully owned subsidiary and also operates a well-balanced energy production portfolio in Italy, producing natural gas, natural gas condensate and electricity.. The Group's Italian operations also include the production of electricity and condensate.

The past year has seen the fruition of many projects to which the Group's management has dedicated much time and effort, applying considerable financial resources. We can be proud of what we have achieved and look with great confidence to the journey ahead.

On August 24, 2016 the Group announced the beginning of crude oil production at a rate of approximately 300 BOPD 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, an entity jointly created and owned by Zenith Aran Oil Company, a 100% subsidiary of Zenith Energy ltd ("**Zenith Aran**"), and SOCAR, State Oil Company of Republic of Azerbaijan. 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 a transformational opportunity for the Company to produce very significant quantities of oil at low-cost. The Board of Directors is fully committed to the long-term development of the Company's Azerbaijan assets. The support of the Government and SOCAR throughout the process of formalising the Rehabilitation, Exploration, Development and Production Sharing Agreement (**REDPSA**) has been extremely positive and helpfiul. The Group now seeks to confirm Zenith's strengths as an operator in one of the largest and most successful oil and gas countries in the world.

On January 11, 2017 Zenith Energy Ltd. also announced that its entire Common Share capital 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". The Group believe that the listing on the Official List will provide a supportive platform to help the Group achieve our ambitious growth objectives.

Zenith is now also in a position to evaluate the acquisition of additional production opportunities in the European and Caspian region, building on the momentum generated by its recent success to further support the Group's continued expansion.

This has been a transformational period for Zenith Energy Ltd., and I look forward to updating our shareholders on the Group's development over the course of the current 2018 fiscal year.

These quarterly results once again evidence the progressively transformational impact of the Company's operations in Azerbaijan.

Our primary intention is to significantly increase Zenith's oil production revenue in Azerbaijan by successfully completing a number of high-impact well workovers across our 642.4 square kilometre REDPSA area. The success of these operations is expected to significantly increase the Company's profitiability, especially in light of the recent increases in the price of oil, and also lower our operational expenditure.

Consolidated Statement of Comprehensive Income

Continuing operations		**Six months ended**	
		30 September 2017	**30 September 2016**
		Unaudited	**Unaudited**
	Note	**CAD $'000**	**CAD $'000**
Revenue	22	2,782	1,067
Royalties		-	(7)
Cost of Sales			
Production costs		(1,490)	(785)
Depletion and depreciation	7	(609)	(204)
Gross Profit / (Loss)		**683**	**71**
Administrative expenses	4	(157)	(1,796)
Gain on business acquisition		-	771,189
Operating Profit / (Loss)		**526**	**769,464**
Fair value movements		-	-
Gain (loss) on sale off marketable securities		-	4
Foreign exchange		-	90
Net Interest expense	5	53	(245)
Profit/(Loss) for the period before taxation		**579**	**769,313**
Taxation	6	-	(153,044)
Profit/(Loss) for the period from continuing operations		**579**	**616,269**
Profit / (Loss) from discontinued operations, net of tax		-	-
Profit/(Loss) for the period		**579**	**616,269**
Other Comprehensive Income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		(158)	(8,195)
Total Comprehensive Income for the period attributable to owners of the parent		**421**	**608,074**

Earnings per share (CAD $)	20		
Basic from profit / (loss) for the period		0.01	10.39
Diluted from profit / (loss) for the period		0.01	6.23
From continuing operations - basic		0.01	10.39
From continuing operations - diluted		0.01	6.23
From discontinued operations – basic and diluted		0.01	6.23

Consolidated Statement of Financial Position		**Six months ended**	
		30 September 2017	**30 September 2016**
		Unaudited	**Unaudited**
ASSETS	Note	**CAD $'000**	**CAD$'000**
Non-current assets			
Property, plant and equipment	7	1,073,436	1,066,801
Capitalised expenses	8	2,210	-
Other financial assets	9	430	167
		1,076,076	**1,066,968**
Current Assets			
Inventory	19	208	317
Trade and other receivables	22	1,382	1,547
Financial instruments at fair value through	12	-	353
Cash and cash equivalents		2,393	126
		3,983	**2,343**
TOTAL ASSETS		**1,080,059**	**1,069,311**
EQUITY AND LIABILITIES			
Equity attributable to equity holders for the parent			
Share capital	10	18,587	10,351
Share warrants and option reserve	11	1,633	2,247
Contributed surplus		2,232	2,231
Retained earnings / (deficit)		554,430	592,476
Total equity		**576,882**	**607,305**
Non-current liabilities			
Borrowings	13	2,380	2,665
Deferred consideration payable	15	484,034	287,044
Convertible loans	14	385	887
Decommissioning provision	16	7,980	9,793
Deferred tax liabilities	6	2,398	153,928
Total non-current liabilities		**497,177**	**454,317**
Current Liabilities			
Trade and other payables	22	2,720	4,033
Oil share agreement		-	1,039
Borrowings	13	2,840	1,503
Deferred consideration payable	15	440	502
Convertible loans	14	-	612
Total current liabilities		**6,000**	**7,689**
TOTAL EQUITY AND LIABILITIES		**1,080,059**	**1,069,311**

Going concern (Note 1)

The notes on pages 14 to 50 form part of the Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 15 November 2017 and are signed on its behalf by: **Andrea Cattaneo, Chief Executive Officers**

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)	-	-	-	616,269	616,269
Other comprehensive income	-	-	-	(8,195)	(8,195)
Total comprehensive income	-	-	-	608,074	608,074
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	1,141	-	-	-	1,141
Value of warrants issued	(713)	737	-	-	24
Expired options	-	-	-	-	-
Total transactions with owners recognised directly in equity	773	737	-	-	1,510
Balance as at 30 September 2016	**10,351**	**2,247**	**2,231**	**592,476**	**607,305**

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)	-	-	-	421	421
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	421	421
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	1,358	(224)	(100)	-	1,034
Expired options	-	(20)	-	-	(20)
Total transactions with owners recognised directly in equity	1,358	(244)	-	-	1,014
Balance as at 30 September 2017	**18,587**	**1,633**	**2,232**	**554,430**	**576,882**

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 ernings (deficit)	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

The notes on pages 14 to 50 form part of the Financial Statements

Consolidated statement of cash flows

		Six months ended	
		30 September 2017	**30 September 2016**
OPERATING ACTIVITIES	Note	**CAD $'000**	**CAD $'000**
Profit/(Loss) for the period before taxation		579	616,269
Items not involving cash:		-	
Shares issued for services		15	214
Shares issued for accrued interest		-	-
Gain (loss) on sale of marketable securities		-	(4)
Fair value adjustment on marketable securities		-	-
Foreign exchange		34	61
Gain on business acquisition		-	(771,189)
Deferred taxation		-	153,044
Gain on conversion of convertible notes		-	-
Fair value adjustment on derivative liability		-	-
Depletion and depreciation	7	609	204
Capitalisation of expenses	8	(2,419)	-
Impairment of property and equipment		-	1
Other expense		-	-
Finance expense	5	(53)	42
Change in working capital	18	(393)	(177)
Net cash used in operating activities		(1,628)	(1,535)
INVESTING ACTIVITIES			
Proceeds on sale of marketable securities		-	11
Cash on disposal of subsidiary		-	-
Purchases of property, plant and equipment		(931)	(31)
Change in working capital	18	-	3
Net cash used in investing activities		**(931)**	**(17)**
FINANCING ACTIVITIES			
Repayment of notes payable		-	-
Proceeds from issue of shares, net of transaction costs	9	1,258	1,116
Proceeds from exercise of options	10	100	-
Proceeds from issue of bonds		-	191
Repayments of loans	13	(330)	-
Proceeds from loans		-	236
Net cash generated from financing activities		**1,028**	**1,543**
Net increase/(decrease) in cash		(1,531)	(9)
Foreign exchange effect on cash held in foreign currencies		-	(3)
Cash at beginning of year		**3,924**	**138**
Cash at end of period		**2,393**	**126**

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 "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 international development of energy production assets in Azerbaijan, where it operats the largest onshore oilfield in the Country; in Italy, where the Company has a well-balanced portfolio of production and exploration assets producing natural gas, natural gas condensate and electricity; and formerly in Argentina, where Zenith's operational activities were divested effective February 19, 2017.
The Company's website is www.zenithenergy.ca.

Zenith is dual listed on the Toronto Stock Exchange Venture under the ticker symbol, "**ZEE**", and on the Main Market of the London Stock Exchange under the ticker "**ZEN**".

Basis of preparation

The consolidated financial information presented in this document 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.
The factors that have determined the adoption of the CAD$ as presentation currency include:

- 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 Group's business activities, together with facts likely to affect its future operations and financial and liquidity positions are set out in the note 2 of the financial statements. In addition, note 22 to the financial statements discloses the Group's financial risk management policy and note 3 details further considerations made by the Director in respect of going concern.

The Directors, having made due and careful enquiry, are of the opinion that the Group has adequate working capital to execute its operations over the next 12 months. The Directors therefore have made an informed judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the financial statements.

2. New standards and interpretations not yet adopted

a) Adoption of new and revised standards

The following IFRSs or IFRIC interpretations were effective for the first time for the financial year beginning 1 April 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

b) New standards and interpretations in issue but not yet effective

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

standard / interpretation	impact on initial application	effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
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

Name	***Country of incorporation***	***Proportion of ownership interest***	***Principal activity***
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 consists 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 CGUs recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

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

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

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

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

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

Decommissioning provision

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

Decommissioning provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the 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 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.

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 six months ended September 30, 2017 are set out below, with a column included for the same period of 2016 for comparative purposes.

	Six months ended 30 September	
	2017	**2016**
	CAD $'000	**CAD $'000**
Professional fees	**722**	**696**
External Audit Remuneration fees	27	-
Legal fees	161	133
Accountancy fee	125	108
Consultancy	202	297
Other fees	207	158
Office	**274**	**167**
Office rental	72	68
Other expenses	202	99

Administrative	**313**	**154**
Administrative services	198	66
Other expenses	115	88
Salaries and benefits	**786**	**375**
Consulting fees	189	89
Salaries	476	144
Other expenses	121	142
Travel	**343**	**404**
Capitalisation of expenses	**(2.281)**	**-**
TOTAL	**157**	**1.796**

5. Finance expense

	Six months ended 30 September	
	2017	**2016**
	CAD $'000	**CAD $'000**
Interest on borrowings	247	235
Accretion of decommissioning obligation	-	-
Accretion of convertible notes	-	-
Accretion of bonds	-	5
Foreign exchange differences	(300)	5
Net finance expense from continuing operations	**(53)**	**245**

6. 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	-	-
Deferred tax	2,398	153,928
Total tax (credit)/ charge for the period	**2,398**	**153,928**

The tax (credit) charge for the six months ended September 30, 2017 comprised CAD $nil (2016 – CAD $Nil) of current tax expense and CAD $2,398 deferred tax reduction (2016 – CAD $153,298k deferred tax reduction).

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

As at September 30, 2017, the Group has accumulated non-capital losses in Canada totaling CAD$24,743k (2016 - CAD $21,200k) which expire in varying amounts between 2028 and 2037 and CAD$400k (2016 – CAD$400k) of non-capital losses in Italy.

7. Property, plant and equipment

	D&P Assets CAD $'000
Carrying amount at April 1, 2016	**14,598**
Additions	31
Acquisitions (business combination)	1,052,775
Disposals	-
Depletion/Depreciation	(204)
Impairment	-
Decommissioning obligation	(2)
Foreign exchange differences	(397)
Carrying amount at September 30, 2016	**1,066,801**

Carrying amount at April 1, 2017	**1,072,993**
Additions	931
Disposals	-
Depletion/Depreciation	(488)
Impairment	-
Decommissioning obligation	-
Foreign exchange differences	-
Carrying amount at September 30, 2017	**1,073,436**

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

Business combination year 2016

Azerbaijan

On 26 January 2016 the Group registered a branch of Zenith Aran, a wholly owned subsidiary of the Company, in Baku, Azerbaijan, to have an operating entity in Azerbaijan for the management of its Azerbaijan oil production assets.

Zenith Aran was incorporated in the British Virgin Islands under the BVI Business Companies Act, 2004, on the November 27, 2015.

On March 16, 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into the REDPSA with SOCAR and SOA. The REDPSA covers 642 square kilometres which include the active Muradkhanli, Jafarli and Zardab oil fields located in the Lower Kura Region, about 300 kilometres inland from the city of Baku, in Azerbaijan (the "Azerbaijani Operations"). Pursuant to the terms of the REDPSA, the Company and SOA have the exclusive right to conduct petroleum operations from the Azerbaijani Operations, through a newly incorporated operating company, Aran Oil Operating Company Limited (the "Aran Oil"). Aran Oil, in which Zenith has an 80% interest, is the operator of the concession, with the remaining 20% interest being held by SOA.

On June 24, 2016, the President of the Republic of Azerbaijan signed the REDPSA into law, following approval by Parliament on 14 June 2016. The delivery of the capital assets previously used in respect of the petroleum operations at the Azerbaijani Operations, from the previous operating company to Aran Oil, officially completed on August 11, 2016 ("**Handover**" or the "**Effective Date**"). Aran Oil now has operational control of the Azerbaijani Operations. The transfer of operational control did not involve any interruption of petroleum production operations at the Azerbaijani Operations.

As a part of the Handover, an inventory of equipment and material was prepared and the volumes of oil in the pipelines and tanks were recorded. Any revenues related to the existing oil as at the date of Handover were allocated to SOCAR.

The Handover involved the transfer of certain individuals employed by the current operator of the Azerbaijani Operations to Aran Oil. In accordance with the laws of Azerbaijan, the transfer process involved the relevant employees being dismissed by their previous employer (the outgoing operator of the Azerbaijani Operations) and entering into new employment contracts with Aran Oil. Any payments to the relevant employees arising as a result of their dismissal by the previous operating company were for the account of the previous operating company. In accordance with the laws of Azerbaijan, the relevant employees have been employed by Aran Oil with effect from the Effective Date. The form of of these employment agreements follows the template prescribed by the Azerbaijani labour code.

The capital assets which transferred to Aran Oil as part of the Handover include production equipment, vehicles, wells, pumps, storage facilities, tools, generators, compressors, pipelines, offices, warehouses, buildings, rigs, yards, roads, infrastructure, radios, tubular goods, supplies, materials and facilities. The Company appointed a consultant in Azerbaijan to review and report on the availability and the state of the assets prior to Handover.

The Exploration Area section of the REDPSA is effective 25 years from the date of SOCAR's approval of the contractor's development programme. The term of each Area may be extended by an additional five years at SOCAR's discretion.

The valuations of the Asset and of the liabilities have 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 Chapman Petroleum Engineering Ltd. ("**Chapman**") and published on June 15, 2016 ("**Original CPR**"), and in particular the financial and economic data from pages 93 to 128.

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

Fair value of net assets acquired CAD$000's	
D&P assets	1,052,765
Compensatory Oil*	(1,997)
Capital Costs*	(285,549)
Foreign Currency Translation	7,913
Decommissioning Obligations*	(1,943)
Gain on business combination	**771,189**
Taxation	(153,044)
Not NPV of the assets	**618,145**

* Amounts required to be paid under the terms of the REDPSA and therefore in accordance with FRS3 ("Business Combinations") form part of the acquisition amount.

D&P assets

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

Decommissioning provisions

The fair value of decommissioning obligations 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.
On 15 June 2016, the day immediately following the acquisition date, the decommissioning obligation assumed was remeasured 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 $711,189k measurement adjustment in the first quarter of year 2017 consolidated statement of income and comprehensive income using prevailing exchange rates.

8. 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 will now seek to demonstrate Zenith's strengths as an operator in one of the largest and most successful oil and gas countries in the world. The Group's primary objective is to significantly increase the production of oil from the Muradkhanli, Zardab and Jafarli oilfields.

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 FCA 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 clearly presented in past quarterly financial statements and capitalised during the six months ended September 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	621	147
Total Travel	36	455
Total Legal	38	578
Total Accounting and bookkeeping	-	108
Total LSE Listing	-	436
TOTAL (CAD$'000)	**695**	**1,724**

Capitalised Expenses	**CAD $'000**
Carrying amount as at April 1, 2017	**-**
Additions	2,419
Depreciation	(209)
Foreign exchange differences	-
Carrying amount as at September 30, 2017	**2,210**

9. 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$353k (September 30, 2016 – CAD$3537k) is now 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.

10. Share Capital

Zenith is authorised to issue an unlimited number of common chares, of which 129,174,277 were in issue as at September 30, 2017 (by comparison 61,354,091 common shares were in issue as at September 30, 2016). 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 no 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 September 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
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 September 2017	**117,596,480**	**17,382**
Non-brokered unit private placement (xviii)	3,533,333	438
Finder's fee	-	(22)
Non-brokered unit private placement (xix)	2,666,667	328
Finder's fee	-	(16)
Non-brokered unit private placement (xx)	666,666	82
Finder's fee	-	(4)
Non-brokered unit private placement (xxi)	3,600,000	404
Finder's fee	-	(20)
Exercise of stock option (xxii)	1,000,000	-
Settlement of debt (xxiii)	111,131	15
Balance – 30 September 2017	**129,174,277**	**18,587**

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. Zenith 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. Zenith 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 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 owed by the Gorup totaling $31k.

iv) On June 16, 2016 the Group completed a non-brokered private placement of 1,519,250 shares of the Group at a price of CAD$0.08 per Unit for aggregate gross proceeds of CAD$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 CAD$0.15 per share for a period of 24 months from the date of closing of the offering. Zenith also paid aggregate finders' fees of CAD$6k.

v) On 10 October 2016 the Group completed 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. Zenith 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 CAD$0.08 per share, to a service provider in settlement of debt , 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 Company in respect of services.

ix) On January 5, 2017 - The Group announced that the Prospectus dated January 5, 2017 had been approved by the UK Listing Authority (the "**Prospectus**"). The Prospectus relates to the admission of the Company' entire common share capital at that date to the standard listing segment of the FCA 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 began on January 11, 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 Group, 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 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. Zenith 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 Group exercised warrants to acquire 1,019,250 new common shares of no par value in the capital of the Group. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received CAD$153k (approximately

£91k).

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

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

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

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

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

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

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

xxii) On September 28, 2017 the Group announced that a Director of the Company has, in accordance with TSX Venture Exchange rules, had swapped part of his salary for the first two quarters of the 2018 financial year for the equivalent of CAD$2.5K per months, for a total of CAD$15k (approximately £9k). As a result, the Director receives 111,131 common shares in the capital of the Company at an average price of approximately CAD$0.14 per each for the period April 1, 2017 until September 30, 2017.

11. 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 June2017	**7,750,000**	**48,442,828**	**0.20**	**1,704**
Options issued	-	-	-	-
Options exercised	(1,000,000)	-	0.15	(33)
Expired	-	(1,293,334)	(0.25)	(38)
Balance – 30 September2017	**6,750,000**	**47,149,494**	**0.20**	**1,633**

As at September 30, 2017, the Group had 47,194,494 warrants outstanding (relating to 47,149,494 shares) and exercisable at a weighted average exercise price of CAD$0.20 per share with a weighted average life remaining of 0.80 years. Subsequent to September 30, 2017 there were warrants excercised for no.6,725,842, of which no.3,807,650 warrants had an exercise price of CAD$0.15 per share, and no, 2,918,192 warrants had an exercise price of CAD$0.20 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%.

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

12. 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.

	Six months ended September 30	
Equity securities	**2017**	**2016**
	CAD $'000	**CAD $'000**
As at 1 April	-	34
Sale	-	(8)
Gain on sale	-	(3)
FV movement	-	(24)
Foreign exchange	-	1
As at 30 September	**-**	**-**

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 September	**-**	**-**

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$353k (September 30, 2016 – CAD$3537k) is now 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. (see note 9 other financial assets)

13. Loans and Notes payable

	Six months ended September 30	
Loans and Notes payable	**2017**	**2016**
	CAD $'000	**CAD $'000**
Loan payable – current	2,840	1,503
Loan payable – non-current	2,380	2,605
Total	**5,220**	**4,108**

(a) Notes payable

	Six months ended September 30	
Notes payable	**2017**	**2016**
	CAD $'000	**CAD $'000**
As at 1 April	-	83
Loan receipt	-	-
Change adjustment	-	-
Interest	-	-
Repayment	-	(83)
As at 30 September	**-**	**-**

(b) Borrowings

	Six months ended September 30	
	2017	**2016**
Loans – current	**CAD $'000**	**CAD $'000**
As at 1 April	973	3,210
Loan receipt	135	236
Transfer between current / non-current	1,994	(1,991)
Repayments	(330)	(187)
Interest	247	235
Foreign exchange	(179)	-
As at 30 September	**2,840**	**1,503**

	Six months ended September 30	
	2017	**2016**
Loans – non current	**CAD $'000**	**CAD $'000**
As at 1 April	4,527	674
Loan receipt	-	-
Transfer between current / non-current	(1,994)	1,991
Interest	-	-
Repayment	-	-
Foreign exchange	(153)	-
As at 30 September	**2,380**	**2,665**

a) USD loan payable

As at March 31, 2017, the Group was indebted to a third party lender for a USD$1,485k ($1,848) loan payable, bearing fixed interest at 10% per annum.

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

As at September 30, 2017, CAD$1,848k (September 30, 2016 – CAD$1,994k) of principal is classified as a current liability and CAD$423k (September 30, 2016 – CAD$270k) 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, guaranteed by Mediocredito Centrale and bears fixed interest at 7% per annum and is repayable in 60 monthly payments of principal and interest until August 6, 2020.

As at September 30, 2017 the principal balance of the loan was €148k (CAD$215k) of which $81k is classified as a current liability and $134k is classified as non-current.

In November 2017 the repayment terms for the Euro Bank loan with GBM Banca of Rome, with an original value of €220k, were amended and the balance of the loan is now repayable in 60 months. The payments of the principal and interest will run on a monthly basis until October 2022.

c) Euro bank debt

On December 17, 2015, the Group obtained a €200k loan (CAD$302k) from Credito Valtellinese Banca of Tortona. The loan is unsecured, guaranteed by Mediocredito Centrale and 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 September 30, 2017 the principal balance of the loan was €109k (CAD$158k) of which $82k is classified as a current liability and $76k is classified as non-current.

d) Euro loan payable

On October 1, 2015, the Group acquired a cogeneration 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 September 30, 2017, the principal balance of the loan was €97k (CAD$140k) of which $140k is classified as a current liability.

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

On April 05, 2017, the Grou'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 (approximately CAD$416), for operational development and production purposes. The loan was drawn down in one tranche and, as at 6 April 2017, it was fully drawn down. Rabitabank can postpone or suspend the facility if there is a decline in oil production in the REDPSA of more than 30% from production levels as at the date of first drawdown, or if the REDPSA is terminated.

This Credit Agreement bears interest at a rate of 11% per annum. The loan is guaranteed by the Group. The loan granted for one year period. The 25% of the principal amount should be paid on quarterly basis. The amount of interest to be paid on monthly basis.

On July 6, 2017 the terms of the repayment of the USD$320k (approximately CAD$416) Credit Agreement were amended and first repayment of principal of USD$80k has been moved to the end of July.

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

On July 31, 2017 USD$20k (CAD$21k) was repaid and the balance of USD$60k (approximately CAD$63k) was agreed to be repaid on September 1, 2017. A subsequent credit committee decision taken in September 2017 amended the payment terms of the loan. The Company will pay interest on monthly basis and the principal total amount of USD$20k will be repaid on December 6, 2017. The balance of the principal amount (USD$280k) will be repaid at a new maturity date of April 6, 2018.

As of September 30, 2017 the outstanding principal amount is USD$300k (approximately CAD$373k) is classified as a current liability.

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 USD$200k (approximately CAD$260). This 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 September 30, 2017 the amount of USD$200k (approximately CAD$249) 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 by the former owner on December 21, 2015 for the initial amount of CHF838k (CAD$1,120k). The loan bears interest at a rate of 2.32% per annum. The loan is repayable in anticipated quarterly tranches of CHF13k (plus accrued interest) (CAD$17k) and the maturity date is July 7, 2022.

As at September 30, 2017 the principal balance of the loan was CHF747k (CAD$957k) of which CAD $67k is classified as a current liability and CAD$890k 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$1,280k). The loan bears interest at a rate of 2.2% per annum. The loan is repayable on July 2, 2019 (plus accrued interest). As at September 30, 2017 the principal balance of the loan was CHF1,000k (CAD$1,280k) and is classified as a non-current liability.

14. Convertible loans

	Six months ended September 30,	
Loans and Notes payable	**2017**	**2016**
	CAD $'000	**CAD $'000**
Bond – non current	385	554
Convertible Notes – current	-	141
Convertible Notes – non-current	-	612
Notes payable - current	-	192
Total	**385**	**1,276**

BOND	Six months ended September 30,	
	2017	**2016**
	CAD $'000	**CAD $'000**
Balance – April 1	385	563
Interest	-	37
Accretion	-	5
Conversion	-	-
Repayments	-	-
Foreign currency translation	-	(51)
Balance – September 30	385	554

The bonds are secured by 99% of the oil and gas assets owned by the Group's subsidiary, Canoel Italia SRL. The bonds bear interest at 12% per annum, payable quarterly, until the maturity date (May 01, 2018), 36 months from the date of issuance (May 01, 2015), 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 (CAD$21k) and granted 67,500 finder's warrants exercisable at CAD$0.25 until for a period of 36 months from the date of issuance.

The grant date weighted average fair value of warrants was CAD$0.03 per warrant (CAD$51) 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

As of September 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	(22)	-	(8)
Balance – 30 September 2016	420	333	423

	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 September 2017	**-**	**-**	**-**

- On July 7, 2015, the Group amended the terms of the convertible notes whereby the conversion price was reduced from CAD$0.215 per share to CAD$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 CAD$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 CAD$23k and the recognition of a CAD$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 (CAD$300k) principal amount of convertible notes (Note 10).
- On November 28, 2016, the Group formalised the agreement it had reached 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 CAD$0.125 per common share to CAD$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 the approval of the TSX Venture Exchange.
- On January 25, 2017 the Group issued 3,700,000 shares on the conversion of 311k Swiss Francs (CAD$407k) principal amount of convertible notes.
- On March 21, 2017 the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 2,170,000 Common Shares of Zenith with an aggregate value of CAD$ 239k (approximately £143k). As at September 30, 2017 there was CHF75k of accrued interest owing.

NOTES PAYABLE

Notes payable	**6 months ended**	
	30 September 2017 CAD$000's	**30 September 2016 CAD$000's**
As of 01 April	-	-
Addition	-	191
Warrants	-	-
Finder's fee	-	-
Interests	-	2
Accretion	-	-
Foreign currency translation	-	(1)
As of 30 September	-	192

As at September 30, 2017, the Group had $nil (30 September 2016 – USD$154k (CAD$192k) of notes payable.
The notes payable were issued on July 15, 2016 by the Group's Argentinean subsidiary Petrolera Patagonia SRL ("**PP SRL**"), bearing interest at a fixed rate of interest of 4% annum and a repayment date of 12 December 2016. The bonds were not secured over any of the assets owned by PP SRL and PP SRL has the option to roll over the bond for a further 180 days.

Disposal of assets in Argentina

On February 20, 2017, Zenith announced the divestment of its operations in Argentina to a group of local energy investors. This decision was taken in light of a challenging operational environment, primarily resultant from the interruption of the Company's oil production activities due to the collapse of a major oil storage tank owned by YPF (Argentina's national oil company) in the vicinity of the Company's former assets in Argentina. This event was beyond the Company's control and caused a major environmental incident, resulting in the Company's inability to transport its oil production via YPF pipelines.

The sale of the Company's Argentina subsidiary was fixed at a nominal sum in recognition of the costs that the new operator was expected to incur in order to resume production from the Don Ernesto and Don Alberto oilfields. In addition, as part of the agreement, Zenith was released from any liabilities relating to environmental responsibilities or future well abandonment obligations for these assets.

The divestment of the Company's operations in Argentina has enabled Zenith's management to more effectively direct its attention towards the development of its Italian operations and especially towards Azerbaijan, where the Company's most important assets are located. This operational realignment reflects the Board's aversion to operational overstretch, and the Company's preference for a strong, undistracted focus towards the achievement of its production objectives in Azerbaijan.

15. 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 has an obligation, under the terms of the REDPSA, to:

1. within one year following the Effective Date, deliver at no charge to SOCAR 5% of the total production of petroleum produced from the REDPSA area in each calendar quarter; and

2. commencing on the first anniversary of the Effective Date, start delivering, at no charge to SOCAR, 15% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter, until the amount delivered is the equivalent of 45,000 tons of "compensatory" crude oil to SOCAR.

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

Capital Costs

At the time of the formal finalitasion of the transaction the production in Azerbaijan was about 275 BOPD, although the REDPSA area has historically produced much larger quantities (Source: SOCAR). Gas is also produced, but in low quantities and is used onsite.

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.

This Azerbaijan field rehabilation programme has commenced by using the Group's recently reconditioned 80-tonne workover rig, in addition to employing a more powerful workover rig operated by an experienced local drilling company. Zenith intends to purchase a modern workover rig to enhance its well workover capabilities within the next four years. This is expected to signficanlty reduce the Group's reliance on external oil service companies in Azerbaijan.

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.

Also a few wells will be drilled in 218, the number depends on the arrival date of the rig.

The Group also intends to acquire one modern drilling rig capable of drilling to a depth 5,000m to carry out a fifteen-year drilling programme. It is anticipated that five new wells will be drilled in 2019, and ten wells in each year thereafter until the planned drilling programme is completed in 2033. The Company expects its drilling programme will require the need to buy an additional drilling rig in the period following the initial fifteen-year drilling programme

During the first four years of the REDPSA it is estimated that USD$2,500k will be spent upgrading the gathering system and central facilities in Azerbaijan to improve safety, efficiency and handle higher production rates. During the same period, 39 active wells currently producing at marginal rates will be worked over at an estimated cost ranging from USD$40k to USD$400k per well, using the Group's existing workover rig.

It is anticipated that in 2019 five shut-in wells completed in the Maykop formation will be worked over to control sand production, at an estimated cost of USD$250k per well, and returning to an increase of production at a total of 200STBl/d.

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

It is envisaged that development drilling will commence in 2018 and continue until 2033. It has been estimated that each well with proved reserves will cost approximately USD$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

	September 30, 2017 CAD$'000	September 30, 2016 CAD$'000
Compensatory Oil		
Current portion	138	28
Non-Current portion	5,739	1,969
Capital costs		
Current portion	302	474
Non-Current portion	478,295	287,075
As of 30 September	**484,474**	**287,546**
Deferred Condideration payable current	440	502
Deferred Consideration payable non-current	484,034	287,044
Total	484,474	287,546

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).

16. 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 assets (CAD$'000):

	2017 CAD $'000	2016 CAD $'000
Balance – 1 April	**7,980**	**7,897**
Business combination	-	1,943
Writeback on disposal of subsidiaries	-	-
Measurement adjustment	-	-
Change in estimate	-	-
Accretion	-	-
Foreign currency translation	-	(47)
Balance – 30 September	**7,980**	**9,793**

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

17. Staff cost

(a) *Employee compensation cost*

In September 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:

	Six months ended 30 September	
	2017	2012
	CAD $'000	CAD $'000
Operating	747	295
General and administrative	401	203
Total employee compensation cost	1,148	498

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

18. Change in working capital

	Six months ended 30 September	
	2017	2016
	CAD $'000	CAD $'000
Trade and other receivables	(318)	(770)
Inventory	70	(271)
Prepaid expenses	28	28
Prepaid property and equipment insurance	39	39
Trade and other payables	(212)	800
Total change in working capital	**(393)**	**(174)**

19. Inventory

As at September 30, 2017 the inventory consists of CAD$88k of crude oil that has been produced but not yet sold, and CAD$120k of materials (2016 – CAD$266k crude oil and CAD$nil materials).

	Six months ended 30 September			
	2017		2016	
	Barrels	CAD $'000	Barrels	CAD $'000
Argentina	-	-	2,462	266
Azerbaijan	2,588	88	1,591	51
Azerbaijan – materials	-	120	-	-

	2,588	**208**	**4,053**	**317**

21. Earnings per share:

		Six months ended 30 September		
		2017 CAD $'000		2016 CAD $'000
Net profit (loss)		579		616,257
Basic weighted average number of shares ('000)		123,655		56,373
Potential dilutive effect on shares issuable under warrants ('000)		47,194		42,471
Potential diluted weighted average number of shares ('000)		170,849		98,844
Net Profit (loss) per share – basic (1)	$	0.01	$	10.93
Net Profit (loss) per share – diluted		0.01		6.23
Net Profit (loss) per share continuing operations – basic	$	0.01	$	10.93
Net Profit (loss) per share continuing operations – diluted		0.01		6.23

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

22. Related party transactions

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

a) included in general and administrative expenses for the three and six months ended 30 September 2017 is CAD$41k and CAD$153k (2016 – CAD$41k and CAD$153k) charged by a director of the Group for administrative services. As at September 30, 2017, CAD$ nil (2016 – CAD$Nil) was included in trade and other payables in respect of these charges.

b) 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.

c) Included in trade and other payables is CAD$161k (2016 – CAD$nil) due to a Director of the Group in respect of salaries.

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

e) On September 28, 2017 the Group announced that a Director of Zenith, Mr. Andrea Cattaneo, had, in accordance with TSX Venture Exchange rules, in part swapped his salary for the first two quarters of the 2018 financial year for the equivalent of CAD$2.5K per months, for a total of CAD$15k (approximately £9k). As a result, Mr. Andrea Cattaneo received 111,131 common shares in the capital of the Group at an average price of approximately CAD$0.14 per each for the period April 1, 2017 until September 30, 2017.

f) During the six months ended September 30, 2017 a Director of Zenith, Mr. Andrea Cattaneo, has purchased a total amount of 1,100,000 common shares of no par value in the capital of the Company at an average price of CAD$0.1416 per common share (approximately £0.08488), and a total amount of CAD$156k (approximately £93k).

As of September 30, 2017 Mr. Andrea Cattaneo holds 2,647,485 common shares in the capital of the Company.

23. Financial risk management

	Six months ended 30 September	
	2016	**2017**
Financial Assets	**CAD$'000**	**CAD$'000**
Trade and other receivables	1,382	1,547
Cash and cash equivalents	2,393	126
Financial instruments at fair value through profit or loss	-	353
Total financial assets	3,775	2,026

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 six months ended September 30, 2017.

The Group's treasury functions, which are managed by the Board of Directors, 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. These instruments are only for the purpose of meeting Zenith's operational requirements. .

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$2,393k (2016 – CAD$126k) and trade and other receivables of CAD$1,382k (2016 – CAD$1,547k).

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, for the six months ended 30 September:

	2017 **CAD$'000**	**2016** **CAD$'000**
Oil and natural gas sales	1,003	1,193
Stamp tax and other tax withholdings	63	84
Goods and services tax	129	124
Other	187	146
	1,382	1,547

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, for the six months ended 30 September:

	2017 **CAD$'000**	**2016** **CAD$'000**
Current	1,382	1,340
90 + days	-	207
	1,382	1,547

b) Liquidity risk

Liquidity risk is the risk that the Group may incur difficulties in meeting its financial obligations as they are due. Zenith'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 any impairment to be necessarynecessary.
As of September 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 31 March 2018**	**Due on or before 31 March 2019**	**Due after 31 March 2019**
	CAD$'000	**CAD$'000**	**CAD$'000**	**CAD$'000**	**CAD$'000**
Trade and other payables	2,720	2,720	2,720	-	-
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
	493,248	1,201,192	5,307	13,563	1,182,322

c) Currency risk

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

	Closing rate		**Average rate**	
	2017	**2016**	**2017**	**2016**
US dollars	1.2454	1.3117	1.2541	1.3037
Euro	1.4697	1.4741	1.4733	1.4545
Swiss Franc	1.2840	1.3249	1.3036	1.3357
British Pound	1.6686	1.7209	1.6412	1.7114

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at September 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	**2016**
	CAD$'000	**CAD$'000**
US dollars	247	371
Euro	52	118
Swiss Franc	224	74
British Pound	64	50
	588	613

d) Commodity price risk

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

As at September 30, 2017 a 5% change in the price of natural gas produced in Italy would represent a change in net income for the six months ended September 30, 2017 of approximately CAD$6k (2016 – CAD$2k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the three and six months ended September 30, 2017 of approximately CAD$14k (2016 – CAD$14k).

As at September 30, 2017, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net profit (loss) for the six months ended September 30, 2017 of approximately CAD$117k (2016 – CAD$33k).

e) Interest rate risk

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

24. Capital management

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

	2017 CAD$'000	**2016** CAD$'000
Working capital (deficiency)	(2,017)	(5,346)
Long-term debt	2,765	3,552
Shareholders' equity	576,882	607,305

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

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

25. Operating segments

The Group's operations are conducted in one business sector, the hydrocarbon production industry. Geographical areas are used to identify the 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 three reportable segments which are as follows:

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

The data relating the assets in Argentina are detailed only in the six months ended September 30, 2016 datasheet, because these assets were disposed on February 2017.

Six months ended September 30, 2016	**Argentina CAD$000**	**Azerbaijan CAD$000**	**Italy CAD$000**	**Other CAD$000**	**Total CAD$000**
Property and equipment	2,804	1,052,656	11,341	-	1,066,801
Other assets	393	943	921	253	2,510
Total liabilities	3,971	443,175	7,495	7,368	462,009
Capital Expenditures	-	-	(31)	-	(31)
Revenue	78	659	330	-	1,067
Royalties	(7)	-	-	-	(7)
Operating and transportation	(269)	(370)	(146)	-	(785)
General and Adinistrative	(179)	(272)	(218)	(1,127)	(1,796)
Depletion and depreciation	(10)	(110)	(84)	-	(204)
Impairment of property and equipment	-	-	-	-	-
Other expenses	-	-	-	-	-
Finance and other expenses	4	618,145	(24)	(131)	617,994
Segment (loss)/ income	**(383)**	**618,052**	**(142)**	**(1,258)**	**616,269**

Six months ended September 30, 2017	**Azerbaijan CAD$000**	**Italy CAD$000**	**Other CAD$000**	**Total CAD$000**
Property and equipment	1,065,020	8,268	148	1,073,436
Other assets	862	826	4,935	6,623
Total liabilities	489,884	7,500	5,793	503,177
Capital Expenditures	876	55	-	931
Revenue	2,347	435	-	2,782
Royalties	-	-	-	-
Operating and transportation	(1,243)	(247)	-	(1,490)
General and Adinistrative	(177)	(139)	159	(157)
Depletion and depreciation	(329)	(69)	(211)	(609)
Impairment of property and equipment	-	-	-	-
Other expense	-	-	-	-
Finance and other expenses	60	(14)	(151)	(105)
Segment (loss)/ income	**658**	**(34)**	**(203)**	**421**

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

		2017	**2016**
		CAD$000	**CAD$000**
Customer A		2,347	659
Customer B		284	-

26. Post Balance Sheet events

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

b) On October 16, 2017 a Director of Zenith, Mr. Andrea Cattaneo, purchased a total amount of 500,000 common shares of no par value in the capital of the Group at an average price of CAD$0.15591 per common share (approximately £0.09415), and a total cost of CAD$78k (approximately £47k)

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

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

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

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

Manufacturing of the Genesis BQ500 is scheduled to begin upon the fulfilment of the preliminary conditions detailed in the commitment letter. This is expected to take place in Quarter 4, 2017, with delivery anticipated in the second half of 2018.

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

g) On November 2, 2017 the Group was a founding party in a newly incorporated Italian company named ‘Leonardo Energy Consulting S.r.l.’. The Group holds a 48 percent interest in the entity. The primary purpose of this subsidiary is the identification of business development opportunities in Central Asia and in the Middle East.

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

i) In November 2017 the repayment terms for the Euro Bank loan with GBM Banca of Rome, with an original value of €220k, were amended and the balance of the loan is now repayable in 60 months. The payments of the principal and interest will run on a monthly basis until October 2022.