ZENITH ENERGY LTD.

(Formerly Canoel International Energy Ltd.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS AND YEAR ENDED MARCH 31, 2015

This management's discussion and analysis (the "MD&A") dated July 23, 2015 of Zenith Energy Ltd. ("Zenith" or the "Company", formerly Canoel International Energy Ltd., is presented in Canadian dollars and should be read in conjunction with the March 31, 2015 audited consolidated financial statements of Zenith, together with the accompanying notes.

Certain information related to the restatement of the Company's restated audited consolidated financial statements for the year ended March 31, 2014, together with the accompanying notes, has been updated in this MD&A to reflect the effect of the restatement.

The consolidated financial statements have been prepared by management and approved by Zenith's Board of Directors on the recommendation of the Audit Committee. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. The financial data included in this MD&A is in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective as at April 1, 2014. The Company has presented its financial statements on a going concern assumption, which assumes that the Company will be able to continue to finance its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Refer to the Business Risks and Uncertainties section of this MD&A for additional information related to identified risks, estimates and uncertainties.

The functional currency of the Company is the Canadian dollar ("CAD"); the functional currency Company's Argentine subsidiaries is the Argentine Peso; the functional currency of the Company's Italian subsidiary is the Euro; and the functional currency of the Company's United States subsidiaries is the United States dollar. The Company's presentation currency is the CAD. In this MD&A, unless otherwise noted, all dollar amounts are expressed in CAD. References to "US$" are to United States dollars and references to "GBP" are to Great Britain Pounds.

Additional information related to the Company's business and activities can be found on SEDAR at www.sedar.com.

BOE Presentation – Production information is commonly reported in units of barrels of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet ("mcf") to one barrel of oil ("bbl"). This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Special Note Regarding Non-IFRS Measures – This MD&A may include references to certain financial measures, as described below, which do not have standardized meanings prescribed by IFRS, however, as these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors and they are measures that the Company uses to evaluate its performance. Investors are cautioned that these non-IFRS measures should not be construed as an alternative to the measures calculated in accordance with IFRS, given their non-standardized meanings; they may not be comparable to similar measures presented by other issuers. The term "field netback" is defined as petroleum and natural gas sales less royalties and less operating and transportation costs. The term "funds from (used in) operations", defined as the cash flow from operating activities, before the change in non-cash working capital and abandonment expenditures, should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with IFRS as an indicator of performance. The Company's determination of funds from operations may not be comparable to that reported by other companies.

Cautionary Statement regarding Forward-Looking Information

Certain information in this MD&A is forward-looking and related to anticipated financial performance, events and strategies. When used in this context, words such as "will", "anticipate", "believe", "plan", "intend", "target" and "expect" or similar words suggest future outcomes. By their nature, such statements are subject to significant risks, assumptions and uncertainties, which could cause the Company's actual results and experience to be materially different than the anticipated results. In particular, forward-looking information and statements include, but are not limited to: (i) expectations related to the two properties producing oil in the Patagonia region of Southern Argentina, owned by Petrolera Patagonia Srl; (ii) expectations related to crude oil and petroleum products prices and demand; (iii) the state of capital markets; (iv) expectations related to operating costs in Argentina and Italy; (v) variations in the Peso, US dollar, Euro, and Canadian dollar exchange rates; (vi) expectations related to security granted over oil and gas assets in Argentina pursuant to a loan agreement; (vii) expectations related to regulatory approvals; (viii) management's analysis of applicable tax legislation; (ix) expectations that the currently applicable and proposed tax laws will not change and will be implemented; (x) expectation that management will continue to focus its efforts towards acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator at least for the initial exploration period; (xi) expectation that management will consider acquiring additional producing assets; (xii) the capital expenditures required in order to re-commence production on both the Torrente Vulgano and Canaldente properties; (xiii) the ability of the Company to re-commence production on both the Torrente Vulgano and Canaldente properties by late 2016; (xiv) the price of natural gas in Italy; (xv) the ability of the Company to comply with certain regulatory requirements in Italy; (xvi) the Company's ability to increase its oil and gas production by early 2016; and (xvii) business strategy and outlook.

These statements are based on certain assumptions and analysis made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate. The material factors and assumptions used to develop these forward-looking statements include, but are not limited to: (i) pricing of crude oil and petroleum products set by the government of Argentina; (ii) increased competition; (iii) assumption that operating costs in Argentina and Italy may be reduced in future months and that the oil price in Argentina will continue to improve; (iv) additional financing of the Company is subject to the global financial markets and economic conditions; (v) the Company will evaluate certain properties located within Argentina and will focus on managing the properties acquired in 2010 with the intention to increase production and cash flows; (vi) assumptions related to international oil and natural gas prices; (vii) ability to obtain regulatory approvals; (viii) costs of exploration and development; (ix) availability and cost of labour and management resources; (x) performance of contractors and suppliers; (xi) availability and cost of financing; and (xii) the Company's business strategy and outlook.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Company's expectations. Such risks and uncertainties include, but are not limited to risks and uncertainties relating to: (i) volatility of and assumptions regarding commodity prices; (ii) product supply and demand; (iii) market competition; (iv) risks inherent in the Company's operations; (v) potential disruption or unexpected technical difficulties in developing or maintaining facilities; (vi) risks associated with technology; (vii) Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; (viii) the Company's ability to secure external sources of debt and equity as needed; (ix) changes in royalty, tax, environmental, greenhouse gas, carbon, accounting and other laws or regulations or the interpretation of such laws or regulations; (x) political and economic conditions in the countries in which the Company operates; (xi) terrorist threats; (xii) risks associated with potential future lawsuits and regulatory actions made against the Company; (xiii) the performance of counterparties in meeting their obligations under agreements; (xiv) economic conditions; (xv) equipment and labour shortages and inflationary costs; (xvi) fluctuations in foreign exchange rates; (xvii) the effect of weather conditions on operations and facilities; and (xviii) stock market volatility.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes.

Except as required by law, the Company disclaims any intention and assumes no obligation to update any forward-looking statement.

NATURE OF OPERATIONS, ACQUISITON AND EXPLORATION ACTIVITIES

The Company was incorporated under the Business Corporations Act (British Columbia) ("BCBCA") on September 20, 2007. The registered business address is 15th Floor, Bankers Court, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. Zenith's website is www.zenithenergy.org. The Company is involved in the exploration for, development of and production of petroleum and natural gas in Argentina and Italy and exploration for oil & gas in central Asia and Africa.

On March 10, 2010, Zenith formed Ingenieria Petrolera del Rio de la Plata S.r.l. ("IPRP"), a wholly owned subsidiary of Zenith. IPRP was initially incorporated in Buenos Aires, Argentina, to negotiate management agreements to operate existing producing properties. However, as described in following paragraphs, after Petrolera Patagonia S.r.l. was acquired, management saw no immediate needs for IPRP and the company was kept in a dormant state and held in trust by Zenith's trustees in Argentina until late 2011.

On July 20, 2010, Zenith incorporated a wholly owned US subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP"), to act as the potential acquirer of two US based companies controlling Central Patagonia S.r.l., the owner of two producing oil fields in the Chubut Province in Argentina.

On July 22, 2010, Zenith acquired two US based companies, namely Central Patagonia Corporation (renamed Petrolera Patagonia Corporation or "PPC") and CPC Holdings (renamed PP Holdings Inc. or "PPH") owning respectively 95% and 5% of Central Patagonia

S.r.l. (renamed Petrolera Patagonia S.r.l. or “PPS”), thereby acquiring two adjacent oil producing properties in Argentina.

On March 23, 2011, Zenith established Canoel Italia S.r.l. (“Italia Srl”), a wholly owned subsidiary of the Company, so that it would have an operating entity if the Company was awarded the oil and gas properties being posted for auction by the Ministry of Economic Development.

On August 27, 2011, Italia Srl was awarded two gas properties, which were previously on production but currently shut-in, at the auction. Zenith’s bid was accepted on the basis of its technical presentation and proposed program to place the properties back on stream. The properties are Torrente Vulgano, located in the Puglia region, and Canaldente, located in the Basilicata region. Both regions are located in southern Italy, which is where the majority of hydrocarbons are produced.

In October 2011, Zenith recognized the opportunity to implement its own completion operations and consequently decided to use the dormant company IPRP for these operations. Management commenced the process to transfer the shares of IPRP from Zenith’s trustees to PPC (95%) and to PPS (5%). This process was completed in May 2012.

In mid-2012, in line with the Company’s strategy to increase its involvement in Italy through its Italian subsidiary, Zenith commenced negotiations to purchase producing and exploratory permits from a well-established gas producing company, Mediterranean Oil & Gas Plc, a British company with activities in Italy, France and Malta whose shares trade on the London AIM Stock Exchange.

On June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties (the “Assets”) from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc (collectively, "MOG") after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership. The Assets are comprised of (i) 6 operated onshore gas production concessions: Masseria Grottavecchia (20% working interest), San Teodoro (100% working interest), Torrente Cigno (45% working interest), Misano Adriatico (100% working interest), Sant’Andrea (40% working interest) and Masseria Petrilli (50% working interest); (ii) 3 non-operated onshore gas production concessions: Masseria Acquasalsa (8.8% working interest), Lucera (13.6% working interest) and San Mauro (18% working interest) (collectively, the “Gas Licenses”); (iii) an operated exploration permit: Montalbano (57.15% working interest) (the “Exploration Permit”); and (iv) 3 exploration permit applications: Serra dei Gatti (100% working interest), Villa Carbone (50% working interest) and Colle dei Nidi (25% working interest) (the “Exploration Applications”).

Most of the Gas Licenses are located onshore in southern Italy, in the Regions of Puglia, Basilicata, Molise, Abruzzo and Marche. The Exploration Permit and Exploration Applications are located in southern Italy and cover an area of 1,285 square kilometres.

The Company conducted the following development and exploration activities in Argentina and Italy as noted below:

	Years ended March 31	
Capital additions	**2015**	2014
Argentina	**929,624**	7,069
Italy	**240,976**	325,048
	1,170,600	332,117

Highlights for the year ended March 31, 2015 include the following:

Operational:

- During the year ended March 31, 2015, the Company sold 49,896 bbls of oil from its Argentine properties versus 50,177 bbls of oil in the 2014 comparative period, a decrease of less than 1%.
- During the year ended March 31, 2015, the Company sold 141,772 mcf of natural gas and 1,013 bbls of condensate from its Italian properties. In the 2014 comparative period following the acquisition of the Italian properties on June 6, 2013, the Company sold 103,816 mcf of gas and 560 bbls of condensate. These sales volumes equate to 405 mcf per day (68 boe per day) for the year ended March 31, 2015 and 358 mcf per day (60 boe per day) for the 299-day period from June 6, 2013 to March 31, 2014.

  Most of the Gas Licenses are located in the southern part of continental Italy in the Regions of Puglia, Basilicata, Molise, Abruzzo and Marche. Last year Zenith was awarded 2 gas producing concessions in this same geographical area by the Italian “Ministero dello Sviluppo Economico”. These concessions, Torrente Vulgano and Canaldente, are respectively located in the Regions of Puglia and Basilicata. The new Exploration Permit and Exploration Applications are also located in the southern part of Italy and cover an area of approximately 1,285 square kilometres.

  European gas prices are established upon a formula that uses Brent crude as the base and consistently offer a premium to North American commodity prices.

Submission of extensive environmental reports relating to the commencement of production of the Torrente Vulgano and Canaldente gas properties has been completed and preliminary approval has been received. The Company is now looking forward to finally place on production these wells after the final approvals is received.

- On July 10, 2014, the Company filed the March 31, 2014 NI 51-101 report on its proven and probable reserves in the Don Alberto and Don Ernesto fields in Argentina and on nine concessions in Italy. The report was prepared by Chapman Petroleum Engineering Ltd., of Calgary, as of March 31, 2014, and can be viewed on SEDAR. The Company expects to file the March 31, 2015 NI 51-101 report in August 2015.
- On September 8, 2014, the Company's wholly-owned Argentinean subsidiary, Petrolera Patagonia, initiated a deep workover program designed to evaluate and optimize production from active wells on both the Don Alberto and Don Ernesto oil properties. The main objective of this program is to double production from up to 27 wells, and bring total Argentinean production to approximately 280 barrels per day. The budget has been set at US$500,000 and will be funded using proceeds from Zenith's May and June 2014 capital raise. The results of this workover program became noticeable in the latter part of the third quarter with new records of monthly production reaching 4,723 barrels in November and 5,141 barrels in December, and especially in the fourth quarter with production at 5,183 barrels in January and 5,210 barrels in March 2015.

Financial:

- The Company generated oil and natural gas revenue, net of royalties, of $4,439,306 in the year ended March 31, 2015 versus $3,687,853 in the comparative period.
- The Company incurred $1,170,600 of capital expenditures in the year ended March 31, 2015. The primary focus of these expenditures related to the Company's Argentine properties.
- During the first quarter ended June 30, 2014, the Company completed the private placement of 8,335,032 units at $0.15 per unit for gross proceeds of $1,250,255. Each unit is comprised of one common share and one warrant exercisable at $0.25 per share for a period of 36 months from the date of issuance. In connection with the unit private placement, the Company paid finder's fees and commissions of $124,530 and issued 492,135 finder's warrants exercisable at $0.25 until for a period of 36 months from the date of issuance.
- On September 12, 2014, the Company announced the completion of the Replacement and Conversion Agreement which was entered into between Zenith and each of the holders of the Company's outstanding 9% unsecured convertible debentures (principal amount $1,080,000 Swiss Francs) dated January 11, 2012 (the "Notes"). Pursuant to the terms of the Replacement and Conversion Agreement, the holders of the Notes agreed to cancel their Notes in exchange for the issuance by Zenith of replacement notes, which are convertible into common shares at a deemed price of $0.215 per share (the "Replacement Notes"). In accordance with the terms of the Replacement and Conversion Agreement, the holders of approximately 42% (principal amount $460,000 Swiss Francs) of the Replacement Notes converted the principal amount of such Replacement Notes into common shares of Zenith, resulting in the issuance of an aggregate of 2,510,058 common shares of Zenith.
- During the third quarter ended December 31, 2014, the Company completed the private placement of 2,708,105 units at $0.15 per unit for gross proceeds of $406,216. Each unit is comprised of one common share and one warrant exercisable at $0.25 per share for a period of 36 months from the date of issuance. In connection with the unit private placement, the Company paid finder's fees and commissions of $17,148 and issued 114,321 finder's warrants exercisable at $0.25 until for a period of 36 months from the date of issuance.
- During the fourth quarter ended March 31, 2015, the Company completed the private placement of 4,486,847 units at $0.15 per unit for gross proceeds of $673,027. Each unit is comprised of one common share and one warrant exercisable at $0.25 per share for a period of 36 months from the date of issuance. In connection with the unit private placement, the Company paid finder's fees and commissions of $40,112 and issued 267,412 finder's warrants exercisable at $0.25 until for a period of 36 months from the date of issuance.

Corporate and Administrative:

- The Company continues to improve its accounting and administrative functions within the organization.
- At the Annual and Special meeting of shareholders, held on September 30, 2014, the shareholders of the Company unanimously approved the name change of the Company from Canoel International Energy Ltd. to Zenith Energy Ltd. The Company's new name took effect immediately and the Company's common shares commenced trading under the new name and new symbol (ZEE) on the TSX Venture Exchange on October 3, 2014. The Company's website changed to www.zenithenergy.org.

Subsequent event highlights:

- In May 2015, subject to regulatory approval, the Company completed a non-brokered private placement of 225,000 units at a price of GBP 1.00 per unit (approximately $1.84 per unit) for gross proceeds of GBP 225,000 (approximately $414,000). Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants. See Subsequent Events for additional details.

- In May 2015, the Company amended the loan payable repayment schedule and extended the maturity date from June 1, 2016 to August 30, 2016. See Subsequent Events for additional details.
- In May 2015, the Company repaid the note payable including accrued interest with proceeds from the redemption of bonds acquired during the 2015 fiscal year. See Subsequent Events for additional details.
- In July 2015, subject to approval by the TSX Venture Exchange, the Company entered into an agreement to amend the terms of its unsecured convertible notes. See Subsequent Events for additional details.

OPERATIONAL UPDATE

ARGENTINA

The main assets of PPS on which the Company has focused its development efforts, are two producing fields, Don Alberto and Don Ernesto, (the "Producing Fields"). The two Producing Fields are located in the Patagonia region of Southern Argentina, and specifically in the San Jorge basin, Chubut Province, within the area of Comodoro Rivadavia. The ownership of these two fields were granted to PPS under old mining codes (the "Mining Codes") under which the licenses do not have an expiry date. The wells on the Producing Fields are connected to battery tanks through existing infrastructure, which is now partially owned by PPS.

The Company's share of estimated total proved plus probable oil reserves were assessed at 780,000 bbls as of March 31, 2015 (March 31, 2014 – 734,000 bbls).

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves.

Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government as crude oil and petroleum products prices in Argentina are capped by the Government at variable levels. The price for the oil produced in the Chubut province, called Escalante, has gradually increased from US$42.00 per bbl in early 2010 to US$63.00 per bbl in December 2013 followed by an increase to US$67.00 per bbl for the majority of 2014. During the last several years, Argentina's domestic oil prices remained significantly below the Brent and WTI crude oil benchmark prices. During 2014, the oil price for Escalante was set at US$67 per barrel, while Brent oil prices have sharply declined from approximately US$110 per barrel to US$49 per barrel. It is important to note that Argentina's regulators have 2015 oil pricing at approximately US$60 per barrel for Escalante crude. This US$60 pricing currently represents a premium when compared to recent WTI prices which dipped as low as US $43.39 in March 2015.

ITALY

In August 2009, the Italian Ministry of Economic Development posted an invitation for bidding on three previously producing gas properties owned and operated by Eni, the Italian multinational oil and gas company. Zenith's wholly owned subsidiary, Canoel Italia Srl ("Canoel Italia"), participated in the bidding process for two properties and was later selected as one of the finalists for both.

On August 30, 2011, the Company announced that the Italian "Ministero per lo Sviluppo Economico" (the Ministry of Economic Development) confirmed in writing that Zenith's technical submission and proposal to re-establish production from the two properties was successful.

These two natural gas properties are in proximity to each other and are located in southern Italy, an area which is currently producing a large portion of Italian hydrocarbons. The first property, named "Torrente Vulgano", is located in the Puglia Region, while the second one, named "Canaldente", and is located in the Basilicata Region. Both properties are already connected to the Italian national gas distribution grid; therefore, there is no need to install new gas pipelines.

The Torrente Vulgano and Canaldente properties were previously produced by Eni. Before the agreement to return the field to the Ministry of Economic Development, in the last 4 years of production (1997-2000), the Torrente Vulgano property was producing an average of 7,900 standard cubic meters (m3) per day (278,949 standard cubic feet (mcf) per day, using a conversion rate of 1 m3 = 35.31 mcf).

Canoel Italia will have to comply with certain Italian regulatory obligations before field start-up. Production will commence after all the necessary approvals have been received, which the Company expects to occur by late 2014. However, there are no assurances that production of the Torrente Vulgano and Canaldente properties will be at the same levels that they were previously producing.

It is worth noting that the Canaldente reservoir appears to be a good candidate for gas storage when the well will be eventually shut-in at the end of commercial production.

On August 27, 2011, Canoel Italia was approved in its role as operator by the Italian relevant authorities and is currently submitting environmental reports and conducting the final assessment of on-site equipment.

On September 4, 2012, the Company signed a Purchase and Sale Agreement with two Italian subsidiaries of Mediterranean Oil & Gas Plc to acquire their entire working interest, ranging from 8.8% to 100%, in 13 onshore producing and exploration permits. This transaction was completed in June 2013, with an effective date of August 24, 2012.

AZERBAIJAN

Zenith is currently engaged in negotiations to acquire an interest in production and development fields in Azerbaijan as it believes that this country offers great opportunities for the development of significant oil fields.

OTHER ACTIVITIES

In addition to its activities discussed above, the Company is actively pursuing the acquisition of other oil and gas producing properties in Italy, Egypt, Argentina, and Azerbaijan in order to provide cash flow to fund its operations, exploration prospects elsewhere in the world and financing for future acquisitions.

Management believes that one of the most promising areas for the development of producing properties is Italy where the company is examining a variety of new prospects.

In regard to new exploration activities, the Company has decided to focus its attention on broader areas of the African continent which may offer new opportunities.

<u>FINANCIAL PERFORMANCE</u>

The following table summarizes key financial indicators for the three months and year ended March 31:

	Three months ended March 31		**Year ended March 31**	
	2015	2014	**2015**	2014
Oil and gas revenue, net of royalties ($)	**987,353**	950,925	**4,439,306**	3,687,853
Oil and gas revenue, net of royalties – per boe ($)	**57.69**	51.52	**59.56**	54.20
Total daily sales volumes per boe	**190**	205	**204**	186
Gain on business combination ($)	**–**	12,193,231	**–**	12,193,231
Net income (loss) ($)	**(984,864)**	7,719,651	**(2,376,281)**	6,318,517
Net income (loss) per share – basic and diluted ($)	**(0.04)**	0.79	**(0.11)**	0.72
Capital expenditures ($)	**795,109**	236,683	**1,170,600**	332,117
Weighted average number of shares – basic and diluted	**27,508,426**	9,722,256	**21,145,518**	8,776,222

Production

	Three months ended March 31		**Year ended March 31**	
	2015	2014	**2015**	2014
<u>Total volumes</u>				
Oil (bbls) (1)	**11,104**	13,556	**49,896**	50,177
Condensate (bbls) (2)	**230**	95	**1,013**	560
Gas (mcf) (2)	**34,684**	28,830	**141,772**	103,816
Total boe	**17,114**	18,456	**74,538**	68,040
<u>Daily volumes</u>				
Oil (bbls/day) (1)	**123**	151	**137**	137
Condensate (bbls/day) (2)	**3**	1	**3**	2
Gas (mcf/day) (2)	**385**	320	**388**	284
Total (boe/day)	**190**	205	**204**	186

(1) At the end of March 2015, there were 53,695 bbls of unsold oil production held in inventory which were sold in subsequent months. Total oil sales, transfers of produced volumes to Termap Oil Storage and oil held in inventory at the end of the period correspond to an average daily production rate for the three months and year ended March 31, 2015 of 164 and 147 bbls of

oil per day, respectively. The average daily production rate for the three months and year ended March 31, 2014 was 159 and 140 bbls of oil per day, respectively.

(2) Daily volumes are calculated over 365 days in the annual period, however, production in Italy commenced on June 6, 2013, following the acquisition of properties from MOG as described under "Operational Highlights". For the 299-day period since the date of acquisition in the 2014 comparative quarter, daily gas volumes were 347 mcf/day and daily condensate volumes were 2 bbls/day. On a combined basis with Argentina oil volumes, 2014 total daily sales volumes for the 299-day period were 197 boe per day.

Oil sales volumes decreased by approximately 18% from 13,566 bbls in the fourth quarter ended March 31, 2014 to 11,104 bbls in the fourth quarter ended March 31, 2015 and decreased by less than 1% from 50,177 bbls in the year ended March 31, 2014 to 49,896 bbls in the year ended March 31, 2015. The decrease in oil sales in the 2015 periods was mostly due to delays experienced by oil tanker in reaching the Comodoro Rivadavia port terminals. As mentioned in the Operational Highlights, actual oil production improved following a workover program which commenced at the beginning of the third quarter.

Gas sales volumes increased by approximately 20% from 28,830 mcf in the fourth quarter ended March 31, 2014 to 34,684 mcf in the fourth quarter ended March 31, 2015. The increase is due to higher production from the Torrente Cigno field which commenced in November 2014.

Gas sales volumes of 141,772 mcf for the year ended March 31, 2015 are for the full period whereas gas sales volumes of 103,816 mcf for the year ended March 31, 2014 are for 299 days from the closing of the acquisition of Italian properties on June 6, 2013 to the end of the period.

Condensate sales volumes are also from Italian properties acquired on June 6, 2013, however, condensate production did not commence until July 2013. Condensate sales volumes increased by approximately 143% from 95 bbls in the fourth quarter ended March 31, 2014 to 230 bbls in the fourth quarter ended March 31, 2015. The increase is also due to higher production from the Torrente Cigno field which commenced in November 2014.

Revenue

	Three months ended March 31		**Year ended March 31**	
	2015	2014	**2015**	2014
Commodity Prices				
Oil ($/bbl)	**74.66**	67.41	**74.30**	63.92
Condensate ($/bbl)	**85.45**	124.68	**86.81**	125.08
Gas ($/mcf)	**6.15**	3.17	**6.98**	8.01
Total ($/boe)	**62.06**	55.10	**64.16**	60.39
Revenues ($)				
Oil (Argentina)	**828,993**	913,841	**3,707,073**	3,207,148
Condensate (Italy)	**19,613**	11,787	**87,961**	70,060
Gas (Italy)	**213,402**	91,289	**989,404**	831,482
Total	**1,062,008**	1,016,917	**4,784,438**	4,108,690

Oil Revenue

Gross oil revenue earned in Argentina was $828,993 for the three months ended March 31, 2015 versus $913,841 in the comparative three-month 2014 period and 3,707,073 for the year ended March 31, 2015 versus $3,207,148 for the comparative year. The increase in oil revenue in the 2015 periods is due to primarily to the increase in the oil price per bbl.

Condensate Revenue

Condensate production commenced in July 2013. The price per bbl received for condensate during the three months and year ended March 31, 2015 was $85.45 per bbl and $86.81 per bbl, respectively, as compared to $124.68 per bbl and $125.08 per bbl earned on condensate sales during the three months and year ended March 31, 2014, respectively. The decrease in the condensate price from the 2014 periods to the 2015 periods is due to a decrease in the base price of Brent crude which is used in the formulas to establish the price of condensate.

Gas Revenue

The price per mcf received for natural gas is lower in the year ended March 31, 2015 as compared to the year ended March 31, 2014 due primarily to the effect of gas sales volumes from the Torrente Cigno area for which these gas volumes are provided to the electricity market and therefore earn a much lower price. During the year ended March 31, 2015, the proportion of gas sales to the lower-priced electricity market was higher than in the comparative 2014 year.

The price per mcf received for natural gas increased in the three months ended March 31, 2015 as compared to the three months ended March 31, 2014 due to an adjustment related to third quarter 2015 revenue recognized in the fourth quarter thereby increasing the price per mcf.

In general, gas prices are also impacted by fluctuations in the base price of Brent crude which is used in the formulas to establish the price of natural gas.

Royalties and Operating Expenses

	Three months ended March 31		**Year ended March 31**	
	2015	2014	**2015**	2014
Royalties ($)	**74,655**	65,992	**345,132**	420,837
% of Argentine revenues [1]	**9%**	7%	**9%**	13%
$/bbl of oil	**6.72**	4.87	**6.92**	8.39
$/boe (total Company)	**4.36**	3.58	**4.63**	6.19
Operating and transportation ($)				
Argentina	**181,666**	476,574	**1,437,731**	1,365,171
Italy	**71,091**	198,661	**375,336**	628,545
Total	**252,757**	675,235	**1,813,067**	1,993,716
Argentina $/bbl	**16.36**	35.16	**28.81**	27.21
Italy $/boe	**11.83**	40.55	**15.23**	35.19
Total $/boe	**14.77**	36.59	**24.32**	29.30

[1] Royalties are charged on Argentine oil revenues only.

Royalties

Royalties in the year ended March 31, 2014 period include adjustments related to a liability associated with an oil share agreement which ended in November 2013. Excluding the impact of the oil share agreement, 2014 royalties would be approximately 9% of revenue which is comparable to the equivalent 9% of revenue for the 2015 periods.

Operating and transportation costs

Argentina operating costs per bbl are lower in the three months ended March 31, 2015 due to a decrease in technical advisory fee and maintenance costs. Argentina operating costs per bbl are higher in the 2015 periods due to a salary increase of 13% negotiated by the union and government agency as well as an increase in security costs at well sites.

Operating costs per boe for the Italian properties are lower in the three months and year ended March 31, 2015 versus the 2014 comparative periods due to operational efficiencies and experience gained since the properties' acquisition in June 2013, and continued monitoring of operations.

Netbacks

	Three months ended March 31		Year ended March 31	
	2015	2014	**2015**	2014
Argentina ($/bbl)				
Revenue	**74.66**	67.41	**74.30**	63.92
Royalties	**(6.72)**	(4.87)	**(6.92)**	(8.39)
Operating expenses	**(16.36)**	(35.16)	**(28.81)**	(27.21)
Field netback	**51.58**	27.38	**38.57**	28.32
Italy ($/boe)				
Revenue	**38.77**	21.04	**43.72**	50.47
Operating expenses	**(11.83)**	(40.55)	**(15.23)**	(35.19)
Field netback	**26.94**	(19.51)	**28.49**	15.28
Total Company ($/boe)				
Revenue	**62.06**	55.10	**64.19**	60.39
Royalties	**(4.36)**	(3.58)	**(4.63)**	(6.19)
Operating expenses	**(14.77)**	(36.59)	**(24.32)**	(29.30)
Field netback	**42.93**	14.93	**35.24**	24.90

General and Administrative Expenses ("G&A")

General and administrative expenses for the three months and year ended March 31 are composed of the following:

	Three months ended March 31		Year ended March 31 31	
	2015	2014	**2015**	2014
Professional fees	**407,172**	519,272	**940,015**	1,085,786
Office	**302,294**	161,516	**716,303**	484,245
Administrative	**135,403**	101,314	**456,682**	297,145
Salaries and benefits	**99,885**	30,463	**481,983**	292,632
Travel	**4,176**	67,767	**100,403**	219,984
	948,930	880,332	**2,695,386**	2,379,792

G&A expenses increased by 8% in the three months ended March 31, 2015 versus the 2014 comparative thee-month period and 13% in the year ended March 31, 2015 versus the 2014 comparative year.

Professional fees decreased in the 2015 periods due to the timing of expenses, the majority of which were incurred earlier in the year and primarily related to business development and fundraising activities. Salaries and benefits are higher in the 2015 periods due primarily the expansion of the Company's personnel in Italy which commenced in July 2013 and $200,000 bonuses paid to senior executives paid in the first quarter. During the 2014 comparative periods, bonuses were paid in both the first and second quarters (for a total of $153,000). Office and administrative expenses are higher in the three months and year ended March 31, 2015 than the 2014 comparative periods due to costs associated with the increase in operating and corporate activities related to the Italian operations. Travel costs are lower in the three months and year ended March 31, 2015 than the 2014 comparative periods due to a cost-savings and a reduction in travel activities.

No general and administrative expenses were capitalized in the three months and year ended March 31, 2015 and 2014.

Depletion and depreciation

	Three months ended March 31		Year ended March 31	
	2015	2014	**2015**	2014
Argentina	**31,898**	210,385	**381,294**	555,664
Italy	**39,940**	178,428	**286,621**	228,310
Total	**71,838**	388,813	**667,915**	783,974
Argentina $/bbl	**2.87**	15.52	**7.64**	11.07
Italy $/boe	**6.65**	36.42	**11.63**	12.78
Total $/boe	**4.20**	21.07	**8.96**	11.52

The depletion rate for Argentine properties in the three months and year ended March 31, 2015 is lower than the comparative 2014 periods due to the impact of an increase in the estimated total proved plus probable reserves of 780,000 bbls reported in the March 31, 2015 reserve report compared to 734,000 bbls reported in the March 31, 2014 reserve report combined with a decrease in the estimated future development costs to $0.7 million as of March 31, 2015 compared to $0.8 million as of March 31, 2014.

The depletion rate for the Italian properties in the three months and year ended March 31, 2015 is based on estimated total proved plus probable reserves of 2,951,800 bbls reported in the March 31, 2015 compared to 1,381,000 bbls reported in the March 31, 2014 reserve report and includes estimated future development costs of $4.2 million as of March 31, 2015 ($3.2 million – March 31, 2014.

As at March 31, 2015, the Company identified certain business risks related to its Italian and Argentine CGUs, such as a decrease in forecast prices from those in the prior year and the deferral of future capital investment, as indicators of impairment. As a result, the Company performed impairment tests at March 31, 2015.

Management estimated the recoverable amount of the above CGUs based on the higher of the fair value less costs to sell and its value in use. The estimated value in use amount for the Italian CGUs was based on 15% discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared March 31, 2015 reserve report. The March 31, 2015 estimated recoverable amount of each CGU was higher than the respective carrying amounts at March 31, 2015 and therefore no impairment was recognized.

The price used onward in the March 31, 2015 for the impairment test of the Argentine CGU was $61 US per bbl.

The following prices were used in the March 31, 2015 impairment test of the Italian CGUs:

Year	Average USD gas price per mcf	Average USD NGL price per bbl
2015 – remainder	$8.60	$56.49
2016	9.03	65.61
2017	9.33	69.51
2018	9.63	72.66
2019	9.93	74.29
2020	10.12	76.67
2021 and thereafter	1% escalation	1% escalation

The Company did not identify any indicators of impairment with respect to its Italian or Argentine CGUs as at March 31, 2014.

Net loss

The Company reported net losses of $984,864 and $2,376,281, respectively, for the three months and year ended March 31, 2015 versus net income of $7,719,651 and $6,318,517, respectively, for the three months and year ended March 31, 2014.

Net income reported in the 2014 periods is due to the recognition of a $12.2 million gain on business combination related to the acquisition of the Italian properties on June 6, 2013 for which the accounting was finalized in the quarter offset by a $4.6 million measurement adjustment to the decommissioning obligation for an update of certain assumptions on the day immediately following the acquisition date.

SUMMARY OF QUARTERLY INFORMATION

The following is a summary of selected financial information for the Company for the past eight quarters.

	Net revenue $	Net income (loss) $	Per share * $
2015			
Fourth quarter ended March 31, 2015	987,353	(984,864)	(0.04)
Third quarter ended December 31, 2014	1,369,251	(179,532)	(0.01)
Second quarter ended September 30, 2014	965,739	(456,928)	(0.02)
First quarter ended June 30, 2014	1,116,963	(754,957)	(0.05)
2014			
Fourth quarter ended March 31, 2014	950,925	7,719,651	0.79
Third quarter ended December 31, 2013	947,394	(705,058)	(0.08)
Second quarter ended September 30, 2013	1,050,224	(328,619)	(0.04)
First quarter ended June 30, 2013	739,310	(367,457)	(0.04)

* The sum of quarterly amounts per share may not add to the year-to-date figure due to rounding.

- Net revenue decreased in the fourth quarter ended March 31, 2015 due to a decrease in oil sales volumes. Net loss increased due to the decrease in net revenue combined with increases in general and administrative expenses, unrealized loss on foreign exchange and finance expenses.
- Net revenue increased and net loss decreased in the third quarter ended December 31, 2014 due primarily to an increase in oil sales volumes in Argentina.
- Net income for the fourth quarter ended March 31, 2014 includes a $12.5 million gain on business combination in relation to the acquisition of the Italian properties, for which the accounting was finalized in the quarter offset by a $4.6 million measurement adjustment to the decommissioning obligation.
- Net revenue is lower in the first quarter ended June 30, 2013 as it only includes revenues from the Italian properties for a portion of the period, from June 6 to June 30, 2013.

LIQUIDITY RISK AND CAPITAL RESOURCES

As at March 31, 2015, the Company had a working capital deficit of $3,407,115 compared to a working capital deficit of $4,273,352 as at March 31, 2014. During the 2015 fiscal year, the Company incurred $1.43 million on operating items and $1.17 million on capital expenditures. The Company also reclassified $2.38 million of debt from current liabilities to long-term liabilities and received $2.15 million of net proceeds on the completion of unit private placements.

During the 2015 fiscal year, the Company issued a total of 15,529,984 units at $0.15 per unit for gross proceeds of $2,329,498. Each unit is comprised of one common share and one warrant exercisable at $0.25 per share for a period of 36 months from the date of issuance. In connection with the unit private placement, the Company incurred $45,850 of issuance costs, paid finder's fees of $135,940 and issued 873,868 finder's warrants exercisable at $0.25 for a period of 36 months from the date of issuance. Officers and directors subscribed for an aggregate of 1,716,665 units for gross proceeds of $257,500.

On July 30, 2014, the Company amended the maturity date of the loan payable from June 1, 2015 to June 1, 2016 and amended the repayment terms to require all accrued and unpaid interest up to June 1, 2015 be paid in full by June 1, 2015, then equal monthly instalments of principal and interest be made until June 1, 2016. See Subsequent Events.

On September 12, 2014, $460,000 Swiss Francs of unsecured convertible notes were converted into 2,510,058 common shares and $23,000 of accrued and unpaid interest forgiven. On December 12, 2014, the Company reached an agreement with the holder of the remaining $620,000 Swiss Francs of unsecured convertible notes to extend the maturity date to January 11, 2016 at the same terms. On March 30, 2015, the Company re-negotiated the maturity date of the convertible notes to January 11, 2017.

As at March 31, 2015, the Company had $5,606,441 (March 31, 2014 – $6,879,084) of current liabilities for which the Company's $936,499 (March 31, 2014 – $711,248) cash balance is insufficient to settle the current liabilities.

As of March 31, 2015, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

		Carrying amount	Contractual cashflows	Due on or before March 31 2016	Due on or before August 30 2016	Due January 11 2017
Trade and other payables	$	2,234,573	2,234,573	2,234,573	–	–
Oil share agreement		1,004,690	1,004,690	1,004,690	–	–
Notes payable		200,499	202,573	202,573	–	–
Loan payable		2,600,015	2,904,894	2,420,745	484,149	–
Convertible note		582,646	866,592	–	–	866,592
	$	6,622,423	7,213,322	5,862,581	484,149	866,592

SUBSEQUENT EVENTS

- In May 2015, subject to regulatory approval, the Company completed a non-brokered private placement of 225,000 units at a price of GBP 1.00 per unit (approximately $1.84 per unit) for gross proceeds of GBP 225,000 (approximately $414,000). Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants. Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of $0.25 per share for a period of 36 months from the date of issuance. In connection with the private placement, the Company paid a finder's fees of GBP 11,250 and granted 67,500 finder's warrants exercisable at $0.25 until for a period of 36 months from the date of issuance.
- In May 2015, the Company repaid the $200,499 note payable including accrued interest with proceeds from the redemption of bonds acquired earlier in fiscal 2015.
- In May 2015, the Company amended the loan payable repayment schedule and extended the maturity date from June 1, 2016 to August 30, 2016. Pursuant to the amended agreement, the Company will make repayments of principal and interest in the amount of US$17,200 per month from June 1, 2015 to August 30, 2016, a US$700,000 payment on November 30, 2015, a US$1,000,000 payment on April 15, 2016 and a final payment of US$389,597 on August 30, 2016.

  In accordance with IFRS, as the amended agreement was not signed as at March 31, 2015, the current portion of the loan payable as presented in the March 31, 2015 consolidated statement of financial position reflects the original repayment terms.
- In July 2015, subject to approval by the TSX Venture Exchange, the Company entered into an agreement to amend the terms of its unsecured convertible notes. Pursuant to the terms of the agreement, the conversion price was reduced from $0.215 per share to $0.125 per share and the rate of interest was reduced from 9% to 5%. The amended conversion price is based on the July 7, 2015 closing market price of the Company's shares.

GOING CONCERN

As at March 31, 2015, the Company has a working capital deficit and an accumulated deficit, and may incur future losses in the development of its business. Current cash resources will not be sufficient to continue development activities. These matters raise significant doubt about the ability of the Company to continue to meet its obligations as they become due. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and meet its obligations and continue its operations for the foreseeable future. Realization values may be substantially different from carrying values as shown and the consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for the consolidated financial statements, then the adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

SHARES AND CONVERTIBLE, EXERCISABLE AND EXCHANGEABLE SECURITIES

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

As March 31, 2015 and the date of this MD&A, the Company's issued share capital and the outstanding securities that are convertible or exercisable for any voting or equity securities of the Company are as follows:

	Number of common shares	Number of warrants	Number of stock options
Balance – March 31, 2014	11,252,039	2,628,367	214,000
Issued	18,040,042	16,403,852	–
Expired	–	(1,803,367)	(39,000)
Balance – March 31, 2015	29,292,081	17,228,852	175,000
Issued	–	1,417,500	–
Expired	–	–	–
Balance – Date of MD&A	29,292,081	18,646,352	175,000

RELATED PARTY TRANSACTIONS

Related party transactions during the years ended March 31, 2015 and 2014 not disclosed elsewhere in this MD&A are as follows:

a) Included in general and administrative expenses is $257,837 (2014 – $200,879) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at March 31, 2015, $nil (2014 – $nil) was included in trade and other payables in respect of these charges.

b) Included in interest expense is $2,466 (2014 – $5,175) on $50,000 Swiss Francs of convertible notes held by company controlled by a director of the Company, of which $nil is included in trade and other payables as at March 31, 2015 (2014 – $12,515). These notes were converted to common shares and the related accrued and unpaid interest forgiven on September 12, 2014.

c) Included in trade and other payables is $52,313 (2014 – $13,803) due to an officer and director of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officer and director will be reimbursed.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet financing arrangements.

OUTLOOK

As noted earlier, the Company's cash and cash equivalent balance is not sufficient to meet the Company's obligations and additional funds will have to be raised through the issuance of debt and equity financing. There is no assurance that such additional funds can be raised on reasonable terms, or at all.

The Company plans to continue to focus on both international oil and natural gas exploration opportunities as well as continuing its search for smaller producing assets in North America, Italy and Argentina. Management intends to focus its efforts toward acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator at least for the initial exploration period.

The Company's plans for the balance of 2015 and early 2016 include:

(a) **Italy:** After the acquisition of 9 producing licenses and 4 exploration applications from Mediterranean Oil & Gas Plc., Zenith has evaluated drilling opportunities on these permits and will formalize plans to either participate directly in such potential operations or farm-out its interest to third parties. The company's technical team has conducted in depth geological, geophysical and engineering evaluations on all these properties. Natural gas from two properties which is not suitable for transportation in the national pipeline grid will now be produced to generate electricity with the use of gas turbines. New seismic data has defined a very interesting structure on the Macchia Nuova property and plans are being made to drill this prospect in the future. Drilling plans for side-track drilling operations at the Masseria Petrilli property and drilling of a new well at the San Teodoro field are also being evaluated. These activities are expected to increase Zenith's gas production in Italy.

Submission of extensive environmental reports relating to the commencement of production of the Torrente Vulgano and Canaldente gas properties has been completed and preliminary approval has been received. The Company is now looking forward to finally place on production these wells after the final approval is received. Production of natural gas from the Torrente Vulgano and Canaldente properties is now expected to commence in the latter part of 2016.

Improvements of facilities at San Teodoro will be completed by the tie-in of new dehydration equipment. While the field has been capable of production, a lack of regional infrastructure had limited additional expansion in the past. In December 2014, Zenith reached an agreement with Basengas S.r.l., a successful retail marketer of natural gas within Italy, to handle forthcoming production from this 100% owned field, which is anticipated to restart production in March 2016. Production from the existing wellbore is expected to commence at 3,000 cubic meters/day (106 mcf/d or 18 boed), increasing Zenith's current daily production in Italy by 25%, to over 100 boepd. Costs of the refurbishment and commencing production are anticipated at €300,000 and will be paid through an equipment leasing facility.

Zenith is also evaluating the possibility of drilling a deviated well into the crestal area of the Torrente Salsola structure, where the Company has a 100% working interest, in order to unlock residual reserves. The Company has an ambitious program to enhance the Italian daily gas production rate in the Puglia Region by 100% through a technical program employing additional workovers.

Zenith is planning to implement an innovative plan for the exploitation of the Traetta 1 well in the Masseria Grottavecchia concession (20% W.I.) through the sweetening of the produced gas so that it can be sold through the national pipeline grid. This plan is in its final stage of completion.

(b) **Argentina:** The Company will continue to focus on the recompletion program on select wells from the properties acquired in 2010 with the intention to increase production and cash flows. The Company is evaluating drilling operation on different formations similar to the presently producing ones. The Company is also evaluating the potential of deeper horizons which are rumoured to have been drilled very successfully by other operators in close proximity to the Don Alberto and Don Ernesto fields.

As mentioned in another section of this MD&A, Argentina's regulators have set the January 2015 oil pricing at approximately US$60 per barrel for Escalante crude. This US$60 pricing currently represents a premium when compared to recent WTI prices which dipped as low as US$45.76 in January 2015.

In light of this change to the commodity price environment, Zenith's Petrolera Patagonia will continue with its budgeted capital expenditures within Argentina, which is free from any contractual or regulatory obligations, as mentioned in several public news updates.

(c) **Azerbaijan:** The Company is currently engaged in advanced negotiations with the local authorities regarding the potential assignment of a group of mature onshore oil fields to Zenith. The Company believes that the application of modern technologies may substantially improve the productivity of these fields,

If an agreement is reached, the Company will create a new subsidiary, Zenith Azerbaijan, to operate in the country.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the ordinary course of business, the Company and its subsidiaries may enter into contracts which contain indemnification provisions, such as service agreements, leasing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, and land use agreements. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

The Company subleases premises in London, UK, under an operating lease on a month to month basis which requires payments of approximately $50,000 per annum.

FINANCIAL RISK MANAGEMENT

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Company's maximum credit risk exposure is limited to the carrying amount cash of $936,499 (2014 – $711,248) and trade and other receivables of $713,031 (2014 – $1,215,913).

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

	2015	2014
Oil sales	$ 383,067	$ 909,525
Stamp tax and other tax withholdings	234,394	235,953
Goods and services tax	16,964	10,861
Other	78,606	59,574
	$ 713,031	$ 1,215,913

The receivables related to the sale of oil and natural gas are due from large companies who participate in the oil and natural gas industry in Argentina and Italy. Oil and natural gas sales receivables are typically collected in the month following the sales month.

The Company considers its receivables to be aged as follows:

	2015	2014
Current	$ 443,999	$ 933,343
90 + days	269,032	282,570
	$ 713,031	$ 1,215,913

Market Risk

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

Currency risk

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

	Closing rate		Average rate	
	2015	2014	2015	2014
ARS	0.1438	0.1380	0.1357	0.1753
US dollars	1.2683	1.1055	1.1387	1.0534
Euro	1.3623	1.5227	1.4382	1.4126
Swiss Franc	1.3057	1.2501	1.2248	1.1491

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

	2015	2014
US dollars	$ 270,200	$ 252,900
Swiss Franc	104,600	150,700
	$ 374,800	$ 403,600

Commodity price risk

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

As at March 31, 2015, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the year ended March 31, 2015 of approximately $53,900 (2014 – $45,100).

Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. As at March 31, 2015, a 5% change in the price of oil would represent a change in net loss for the year ended March 31, 2015 of approximately $168,100 (2014 – $145,300).

Interest rate risk

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

RESTATEMENT OF MARCH 31, 2014 CONSOLIDATED FINANCIAL STATEMENTS

Management identified the following errors related to the March 31, 2014 consolidated financial statements which were corrected retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":

(a) The Company used a spot-rate rather than a credit-adjusted rate in the calculation of the fair value of the decommissioning obligation of the Company's Italian assets on the acquisition date. The restatement of the Company's March 31, 2014 consolidated financial statements for this error resulted in a $918,361 increase in property and equipment, a $7,580,941 reduction in decommissioning obligation, a $2,337,308 increase in deferred tax liability, a $326,502 reduction in accumulated other comprehensive loss and a $5,835,492 reduction of deficit related to a corresponding increase in the gain recognized on the acquisition.

(b) The Company did not include certain pre-acquisition capital expenditures related to the Italian assets in the business combination. The inclusion of these pre-acquisition capital expenditures in the business combination resulted in a $390,354 decrease in property and equipment ($23,545 relates to foreign currency translation), a $96,837 decrease in deferred tax liability, a $28,224 increase in accumulated other comprehensive loss and a $265,293 increase in deficit related to a $4,679 decrease in depletion expense, a $265,936 decrease in the gain recognized on the acquisition and a $4,036 reduction in the recovery of income taxes.

(c) Based on a change in the discount rate used in the fair value measurement of the decommissioning obligation on the date of acquisition to a long-term risk-free rate based on the expected timing of cash flows of the decommissioning obligation under IAS 37 (Note 8), there was a $4,814,501 increase in the decommissioning obligation associated with the acquired assets (comprised of a $4,621,935 measurement adjustment and $192,566 of foreign exchange) and a $1,271,032 decrease in the deferred tax liability offset by the recognition of a corresponding $4,621,935 measurement adjustment, a $1,271,032 increase in the deferred tax recovery and $192,566 decrease in exchange differences on translation of foreign operations in the consolidated statements of income (loss) and comprehensive income (loss).

(d) The Company miscalculated the year end decommissioning obligation which, combined with the impact a revision to the long-term risk free rate, resulted in a $2,211,931 reduction in property and equipment, a $3,348,815 reduction in decommissioning obligation, a $122,060 increase in deferred tax liability, a $1,124,846 reduction in accumulated other comprehensive loss and a $110,022 increase in deficit related to corresponding changes in depletion, accretion and deferred tax expense.

Notes 8, 9, 15, 16, 20, 21 and 28 to the March 31, 2015 consolidated financial statements have been restated to reflect the adjustments described above.

The Company corrected the above errors retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" as presented in the following March 31, 2015 consolidated financial statements:

Consolidated Statement of Financial Position as at March 31, 2014:

	Previously reported $	Note	Adjustment $	Restated $
ASSETS				
Current assets	2,605,732		–	2,605,732
Non-current assets				
Property and equipment	20,937,438	(a)	918,361	19,253,514
		(b)	(390,354)	
		(d)	(2,211,931)	
Prepaid property and equipment insurance	549,497		–	549,497
Total assets	24,092,667		(1,683,924)	22,408,743
LIABILITIES				
Current liabilities	6,879,084		–	6,879,084
Non-current liabilities				
Loan payable	377,644		–	377,644
Decommissioning obligation	13,392,936	(a)	(7,580,941)	7,277,681
		(c)	4,814,501	
		(d)	(3,348,815)	
Deferred taxes	1,206,633	(a)	2,337,308	2,298,132
		(b)	(96,837)	
		(c)	(1,271,032)	
		(d)	122,060	
Total liabilities	21,856,297		(5,023,756)	16,832,541
SHAREHOLDERS' EQUITY				
Share capital	7,151,893		–	7,151,893
Warrants	487,257		–	487,257
Contributed surplus	1,744,326		–	1,744,326
Accumulated other comprehensive loss	(1,442,635)	(a)	326,502	(212,077)
		(b)	(28,224)	
		(c)	(192,566)	
		(d)	1,124,846	
Deficit	(5,704,471)		2,109,274	(3,595,197)
Total shareholders' equity	2,236,370		3,339,832	5,576,202
Total shareholders' equity and liabilities	24,092,667		(1,683,924)	22,408,743

Consolidated Statement of Income and Comprehensive Income for the year ended March 31, 2014:

	Previously reported $	Note	Adjustment $	Restated $
Revenue				
Oil and natural gas revenue	4,108,690		–	4,108,690
Royalties	(420,837)		–	(420,837)
	3,687,853		–	3,687,853
Expenses				
Operating	1,940,149		–	1,940,149
Transportation	53,567		–	53,567
General and administrative	2,379,792		–	2,379,792
Foreign exchange	482,381		–	482,381
Fair value adjustment on marketable securities	30,686		–	30,686
Gain on business combination	(6,623,675)	(a)	(5,835,492)	(12,193,231)
		(b)	265,936	
Measurement adjustment on decommissioning obligation	–	(c)	4,621,935	4,621,935
Depletion and depreciation	889,383	(b)	(4,679)	783,974
		(d)	(100,730)	
Fair value adjustment on derivative liability	(55,653)		–	(55,653)
	(903,370)		(1,053,030)	(1,956,400)
Income from operations	4,591,223		1,053,030	5,644,253
Finance income	126,120		–	126,120
Finance expense	(804,811)	(d)	(88,692)	(893,503)
Net finance expense	(678,691)		(88,692)	(767,383)
Income before taxes	3,912,532		964,338	4,876,870
Tax reduction	296,711	(b)	(4,036)	1,441,647
		(c)	1,271,032	
		(d)	(122,060)	
Net income	4,209,243		2,109,274	6,318,517
Exchange differences on translation of foreign operations	(562,349)	(a)	326,502	668,209
		(b)	(28,224)	
		(c)	(192,566)	
		(d)	1,124,846	
Comprehensive income	3,646,894		3,339,832	6,986,726
Net income per share				
Basic and diluted	0.48		0.24	0.72

The correction of the above errors had no impact on the Company's reported net cash flows from operating, financing or investing activities.

In connection with the restatement of the consolidated statement of financial position as at March 31, 2014, management has assessed the effectiveness of internal controls over financial reporting and disclosure controls and procedures. The deficiencies identified in internal controls over financial reporting related primarily to ineffective review procedures of complex calculations during the period-end financial reporting close. As a result, management has commenced a process of conducting a thorough review of the underlying reasons that lead to the accounting adjustments, as well as the design and operation of the controls over the period-end financial reporting close processes.

Management is committed to improving the Company's internal controls over financial reporting and will continue to diligently and vigorously review the Company's internal controls by utilization of internal and external sources, as deemed necessary. As the Company continues to evaluate and work to improve its internal controls over financial reporting, it may be necessary to take additional measures to address internal control deficiencies that may be identified.

BUSINESS RISKS AND UNCERTAINTIES

The Company has production operations in Argentina, and focuses the majority of its activities on exploration in Argentina and Italy. Some of the Company's operations and related assets are located in countries which carry a higher degree of political and economic risk.

Zenith's current oil production in Argentina is not receiving WTI equivalent prices as the selling price of oil in Argentina is fixed by the Government and is subject to minor price fluctuations. Oil and natural gas are commodities whose prices have fluctuated widely in recent years and are determined based on world demand, supply and other factors, all of which are beyond the control of the Company.

The Company operates in the petroleum and natural gas industry which is subject to numerous risks that can affect the amount of cash flow from operating activities and the ability to grow. These risks include but are not limited to:

- Global economic uncertainty;
- Risks associated with operating in foreign jurisdictions;
- Competition with more established companies and the availability of services;
- Volatility in commodity pricing, exchange and interest rates;
- Government and regulatory risk with respect to royalty and income tax regimes;
- Operation risks that may affect the quality and recoverability of reserves;
- Geological risks associated with accessing and recovering new quantities of reserves;
- Ability to capitalize on farm-in and farm-out opportunities as they arise;
- Production risks associated with the ability to extract commercial quantities of petroleum and natural gas;
- Transportation risk with respect to the ability to transport petroleum and natural gas to market;
- Third party credit risk and the resulting ability to collect amounts owed;
- Capital markets risk and the ability to finance future growth;
- Uncertainty as to the nature of evolving environmental legislation that is likely to result in stricter standards and enforcement ; and
- Environmental risk with respect to the ability to remedy spills, releases or emissions of various substances produced in association with petroleum and natural gas operations.

The Company will seek to minimize these business risks by:

- Employing management, technical staff and consultants with extensive industry experience;
- Maintaining a low cost structure;
- Maintaining prudent financial practices;
- Controlling timing and magnitude of operating and capital costs;
- Working with established industry partners; and
- Maintaining insurance in accordance with industry standards to address the risk of liability for pollution, blow-outs, property damage, personal injury and other hazards.

CRITICAL ACCOUNTING ESTIMATES

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. The significant areas of estimation uncertainty are as follows:

Business combinations

In a business combination, the Company estimates the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon an estimation of recoverable reserves being acquired.

Carrying value of oil and natural gas assets

The Company used judgment to assess, at each reporting date, whether there is an indication that an asset or CGU may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use and fair value less costs to sell.

These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. The carrying value of oil and gas assets is sensitive to changes in the aforementioned estimates and assumptions and a material adjustment to the carrying value of the Company's oil and natural gas assets may be required as a result of changes to these estimates and assumptions.

Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Estimation of oil and natural gas reserves

The estimate of oil and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statement of loss and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's oil and natural gas assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning obligation due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

Decommissioning obligation

Amounts recorded for the Company's decommissioning obligation requires the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures, discount rates and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on the Company's consolidated statement of loss and comprehensive loss or its consolidated statement of financial position.

Stock options, warrants and derivative financial instruments

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities, by their very nature are subject to measurement uncertainty. The Company uses the Black-Scholes pricing model to estimate the fair value of stock options, warrants and derivative financial instruments, which is based on significant assumptions such as volatility, forfeiture rate, interest rate, dividend yield and expected term.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Contingencies

When contingencies exist, management estimates the related financial impact to the Company of the possible outcomes of one or more future events.

NEW STANDARDS AND AMENDMENTS NOT YET ADOPTED

The Company has reviewed amendments to accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 3 Business Combinations

Amendments to IFRS 3 Business Combinations clarify the classification and measurement of the obligation to pay contingent consideration. The amendments are effective for business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. IFRS 9 is effective for annual period beginning on or after January 1, 2018.

IFRS 11 Joint Arrangements

Amendments to IFRS 11 Joint Arrangements clarify the accounting for acquisitions of interests in joint operations. The amendments are effective for annual period beginning on or after January 1, 2016.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 Revenue from Contracts with Customers which specifies how and when an entity will recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 is effective for annual period beginning on or after January 1, 2018.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets clarify acceptable methods of depreciation and amortization. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 24 Related Party Disclosures

Amendments to IAS 24 Related Party Disclosures expand the definition of a related party to include a management entity and related disclosures of transactions with a management entity. The amendments are effective annual periods beginning on or after July 1, 2014.

The Company is currently assessing the impact these standards and amendments may have on its consolidated financial statements.

OTHER

Additional information related to the Company's business and activities can be found on SEDAR at **www.sedar.com**.