ZENITH ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS AND YEAR ENDED MARCH 31, 2016

This management's discussion and analysis (the "MD&A") dated July 29, 2016 of Zenith Energy Ltd. ("Zenith" or the "Company", is presented in Canadian dollars and should be read in conjunction with the Company's March 31, 2016 audited consolidated financial statements, together with the accompanying notes.

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, 2015. 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; the functional currency of the Company's United States subsidiaries is the United States dollar and the functional currency of the Company's British Virgin Islands subsidiary is the New Manat. The Company's presentation currency is the CAD. In this MD&A, unless otherwise noted, all dollar amounts are expressed in CAD. References to "USD" are to United States dollars, references to "€" are Euros and references to "GBP" are to 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.

On October 1, 2015, the Company acquired co-generation equipment and facilities from the owner of the plant that treats gas from the Masseria Vincelli 1 well in the Torrente Cigno concession in Italy. The acquisition will enable the company to produce electricity from the gas produced by the Masseria Vincelli 1 well and sell it directly into the national energy grid.

In September 2015, the Company opened an office in Baku, the capital of Azerbaijan. In October 2015, the Republic of Azerbaijan issued a Presidential Decree which authorized the State Oil Company of the Republic of Azerbaijan ("SOCAR") to negotiate a Rehabilitation, Exploration, Development and Production Sharing Agreement ("REDPSA") with Zenith pursuant to which Zenith would receive the rights and obligations to an 80% participating interest in current and future production from three producing onshore oil fields named Muradkhanli, Jafarli and Zardab, known as the Muradkhanli Block (the "Block"), covering an area of 642.4 square kilometres and currently producing approximately 350 barrels of crude oil per day. The REDPSA was ratified by the Parliament of the Republic of Azerbaijan in June 2016. See Operational Update – Azerbaijan for further details.

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

	Years ended March 31	
Capital additions	**2016**	2015
Argentina	**$ 236,515**	$ 929,624
Italy	**178,406**	240,976
	$ 414,921	$ 1,170,600

Highlights for the year ended March 31, 2016 include the following:

Operational:

- During the year ended March 31, 2016, the Company sold 17,279 bbls of oil from its Argentine properties versus 49,896 bbls of oil in the 2015 comparative period, a decrease of 65%. This temporary decrease lasted longer than expected and was due to the collapse of production tanks at a nearby government facility which forced the shutdown of transmission pipelines during clean-up operations. At the re-commencement of production in December 2015, high-water levels caused by clean-up pumping by other operators in neighboring areas further disrupted production. The situation has now been rectified and production is slowly increasing.
- During the year ended March 31, 2016, the Company sold 122,040 mcf of natural gas and 906 bbls of condensate from its Italian properties as compared to 141,772 mcf of natural gas and 1,013 bbls of condensate in the 2015 comparative period, a decrease of 14%.
- On September 25, 2015 the Company's Board of Directors authorized the establishment and opening of a representative

corporate office in Baku, the capital city of Azerbaijan.

- On October 1, 2015, the Company acquired a co-generation plant and assumed certain liabilities for plant employee from a third party for total consideration of €449,190 ($666,194), of which €401,148 ($549,943) was financed in the form of a loan payable to the seller and €48,042 ($71,251) was offset against trade and other receivables due from the seller.
- On November 27, 2015, the Company incorporated a wholly-owned subsidiary in the British Virgin Islands under the BVI Business Companies Act, 2004, as an operating entity for the management of the Azerbaijan oil properties and changed the subsidiary's name to Zenith Aran Oil Company Limited on December 30, 2015.
- As of January 1, 2016, the Company completed the amendment of all its gas selling contracts in Italy. As a result, the formulas used to determine the gas selling price are now based on the European gas price value, rather than the price of Brent crude. The formula change is expected to result in improved revenues from the Company's Italian properties.
- The REDPSA was executed on March 16, 2016 between SOCAR, Zenith Aran and SOCAR Oil Affiliate ("SOA"), a 100% owned subsidiary of SOCAR. Conditions for ratification by the Parliament of the Republic of Azerbaijan included an Ultimate Parent Guarantee in favour of the REDPSA which the Company delivered to SOCAR on April 10, 2016 and a Government Guarantee by SOCAR which the Company received on April 27, 2016. The REDPSA was ratified on June 20, 2016. In July 2016, the Company established Aran Oil Operating Company Ltd., an 80% owned subsidiary of Zenith Aran, to serve as operator of the REDPSA.
- On June 14, 2016, the Company filed the March 31, 2016 NI 51-101 report on its proven and probable reserves in the Alberto and Don Ernesto fields in Argentina, four of nine concessions in Italy and three onshore oil fields in Azerbaijan. The report was prepared by Chapman Petroleum Engineering Ltd., of Calgary, as of March 31, 2016, and can be viewed on SEDAR.

Financial:

- The Company generated oil and natural gas revenue, net of royalties, of $1,697,696 and $262,054 of electricity revenue in the year ended March 31, 2016 versus $4,439,306 and $nil, respectively, in the 2015 comparative period.
- The Company incurred $414,921 of capital expenditures in the year ended March 31, 2016.
- In April and May 2015, the Company completed a non-brokered private placement of 290,000 units at a price of GBP 1.00 per unit (approximately $1.86 per unit) for gross proceeds of GBP 290,000 ($538,900). Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants. Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of $0.25 per share for a period of 36 months from the date of issuance. In connection with the private placement, the Company paid a finder's fees of GBP 11,250 ($21,169) and granted 67,500 finder's warrants exercisable at $0.25 until for a period of 36 months from the date of issuance.
- In May 2015, the Company repaid the $200,499 note payable including accrued interest with proceeds from the sale of the Boden 2015 bonds acquired in fiscal 2015.
- In May 2015, the Company acquired USS84,000 of additional Boden 2015 bonds which were sold in July 2015 at market price of 13.43 US$ bonds to Pesos.
- 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. The Company made and applied the monthly US$17,200 payments from June 1 to December 31, 2015 against accrued interest. The US$700,000 payment due on November 30, 2015 was not made. The loan payable was further amended in December 2015 as described below.
- In July 2015, 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 was based on the July 7, 2015 closing market price of the Company's shares.
- On August 6, 2015, the Company obtained a €220,000 loan ($315,986) from the GBM Banca of Rome. The loan is unsecured, bears fixed interest at 7% per annum and is repayable in 60 monthly payments of principal and interest until August 6, 2020.
- In September 2015, the Company completed the private placement of 2,700,000 units at $0.10 per unit for gross proceeds of $270,000. Each unit is comprised of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at $0.25 per share for a period of 36 months from the date of issuance.

- On November 13, 2015, the Company secured a £20,000,000 (CAD$40,250,000) unsecured loan facility (the "Loan") for general corporate purposes with a Cayman Islands based Fund (the "Lender"). The Loan can be drawn by written notice given by the Company. Subject to a satisfaction of certain conditions precedent and the approval of the Lender, a minimum sum of £100,000 and up to a maximum sum of £2,000,000 for each tranche can be drawn at any time from the date of the Loan agreement for a period of 18 months after such date. The Loan accrues interest at the rate of 12% per annum on the amount drawn and is payable quarterly in arrears. Each outstanding draw down is repayable on the third anniversary of the first draw down date. The Company may prepay the loan, in whole or in part, at any time and without penalty. A one-time fee of £25,000 is payable in cash or by issuing the Lender common shares of the Company. As at March 31, 2016 and the date of this MD&A, the Company had not made any draws on the Loan.
- In November and December 2015, the Company completed private placements for aggregate 4,214,125 units at $0.08 per unit for gross proceeds of $337,130. Each unit is comprised of one common share and one common share purchase warrant. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at $0.25 per share for a period of 36 months from the date of issuance.
- On December 17, 2015, the Company obtained a €200,000 loan ($301,880) from Credito Valtellinese Bank of Tortona. The loan is unsecured, bears fixed interest at 4.5% per annum and is repayable in 42 monthly payments of principal and interest until July 17, 2019.
- On December 21, 2015, the Company amended the loan payable repayment schedule and extended the maturity date from August 30, 2016 to March 31, 2018. Pursuant to the amended agreement, the Company will make repayments of principal and interest in the amount of US$20,000 per month from April 5, 2016 to April 30, 2018, a US$700,000 payment on February 28, 2016 or later date being agreed with the lender and a final payment of US$1,485,337 on March 31, 2018. The US$700,000 payment due on February 28, 2016 was not made. The loan payable was further amended in May 2016 as described under Subsequent Events.
- In January to March 2016, the Company completed a non-brokered private placement for an aggregate 5,780,688 units at $0.08 per unit for gross proceeds of $462,455. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at $0.15 per share for a period of 24 months from the date of issuance. In connection with the private placement, the Company paid finder's fees of $19,618 and issued a total of 82,733 finder's warrants exercisable at $0.15 for a period of 24months from the date of issuance.
- In March 2016, the Company issued 724,872 common shares at an average price of $0.092 per share for the settlement of $66,717 of debt owed to certain vendors.

Corporate and Administrative:

- The Company continues to improve its accounting and administrative functions within the organization.
- On March 11, 2016, the Company hired a new Chief Financial Officer, Mr. Nilesh Jagatia. Mr. Jagatia graduated in 1990 from the University of North London with a Bachelor of Arts Degree in Accounting and received his certification from the Chartered Association of Certified Accountants (FCCA) in 2001. Mr. Jagatia has served as Financial Director, Chief Financial Officer and Director with several private and London AIM listed companies. Mr. Jagatia currently serves as Finance Director of four UK listed companies: Octagonal Plc (L.OCT), Limitless Earth Plc (L.LME), Teathers Financial Plc (L.TEA) and Inspirit Energy Holdings Plc (L.INSP). Mr. Jagatia will be working in the Company's London office and will assist Zenith with all financial matters, including preparation and submission of financial reports, consolidation of operations in Argentina, Italy and Azerbaijan, as well as financial presentations to institutions, brokers and shareholders.

Subsequent Events:

- Subsequent to March 31, 2016, the Company completed a non-brokered private placements for the issuance of an aggregate 12,086,900 units at $0.08 per unit for gross proceeds of $966,952 of which $133,982 was received in March 2016 and is included in trade and other payables as at March 31, 2016. Each unit is comprised of one common share and one warrant exercisable at $0.15 per share for a period of 24 months from the date of issuance. In connection with the private placement, the Company paid a finder's fees of $40,377 and granted 504,712 finder's warrants exercisable at $0.15 until for a period of 24 months from the date of issuance.
- In June 2016, the Company issued 472,500 common shares for the settlement of $45,170 of debt owed to certain vendors.
- In June 2016, the Company issued 2,730,000 common shares on the conversion of approximately 230,000 Swiss Francs ($300,303) principal amount of convertible notes.
- In May 2016, the Company amended the loan payable repayment schedule to extend the date of the USD 700,000 payment from February 28, 2016 to June 5, 2016. The Company did not make the USD 700,000 payment on June 5, 2016 nor has the lender indicated any intention to convert the outstanding debt to equity. A further amendment to the repayment schedule and terms is being negotiated with the lender.

- In July 2016, the Company sold 116,913 shares of GRIT for gross cash proceeds of $10,840.
- In June 2016, the Company received notice that the Parliament of the Republic of Azerbaijan ratified the REDPSA for certain blocks of Azerbaijan oil fields in which the Company has the rights and obligations for an 80% participating interest in current and future production.
- In July 2016, the Company established Aran Oil Operating Company Ltd., an 80% owned subsidiary of Zenith Aran, to serve as operator of the REDPSA.

OPERATIONAL UPDATE

ARGENTINA

The main assets of PPS on which the Company has focused its development efforts, are two producing fields, 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 545,000 bbls as of March 31, 2016.

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 set by the Government at variable levels. The price for the oil produced in the Chubut province, called Escalante, which represents the largest quantity of oil produced in Argentina, 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 and a decrease to an average of US$60.00 per bbl in 2015. In December 2015 through March 2016, Escalante crude was set at US$59 per bbl and early indications are that the Escalante crude price will be set at US$54.90 for the remainder of 2016 which continues to represent a premium when compared to WTI and Brent prices.

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 2016. 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 June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership.

On October 1, 2015, the Company acquired co-generation equipment and facilities which will enable the company to produce electricity from the gas produced by the Masseria Vincelli 1 well and sell it directly into the national energy grid.

The Company's share of estimated total proved plus probable natural gas and condensate reserves were assessed at 10,098 Mmscf (1,683,000 bbls) as of March 31, 2016.

AZERBAIJAN

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

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

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

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

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, Albania, Oman and Argentina in order to provide cash flow to fund its operations, exploration prospects elsewhere in the world and financing for future acquisitions.

In May 2016, the Company received written confirmation of its successful tender from Agjencia Kombëtare e Burimeve Natyrore (AKBN), the National Agency of Natural Resources of Tirana, a wholly-controlled government agency of the Albanian Ministry of Energy, which is responsible for the development and control of natural resources within Albanian territory. Block C covers an area of 222,395 acres (347.5 square miles or 900 square kilometers) and is located south of the city of Durres, in the central region of the Albanian coast. The award is conditional to the negotiation of a petroleum agreement, and subsequent government and board of director approvals. Zenith will now work with AKBN to negotiate and execute a production sharing contract. The Company will have seven years to conduct initial exploration activities, which allows the financial commitments to be largely deferred. Management considers this deferral of costs advantageous given the projected demand for new reserves over the longer term and the outlook for world pricing beyond 2020.

FINANCIAL PERFORMANCE

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**	
	2016	2015	**2016**	2015
Oil and gas revenue, net of royalties ($)	**110,699**	987,353	**1,697,696**	4,439,306
Oil and gas revenue, net of royalties – per boe ($)	**40.56**	57.69	**50.56**	59.56
Total daily oil and gas sales volumes per boe	**63**	190	**105**	204
Electricity revenue($)	**140,620**	–	**262,054**	–
Electricity daily gas sales volumes per mcf ($)	**7.84**	–	**8.82**	–
Daily electricity gas sales volumes per mcf	**197**	–	**81**(1)	–
Net loss ($)	**(5,568,266)**	(984,864)	**(7,674,448)**	(2,376,281)
Net loss per share – basic and diluted ($)	**(0.14)**	(0.04)	**(0.23)**	(0.11)
Capital expenditures (recoveries) ($)	**(103,072)**	795,109	**414,921**	1,170,600
Weighted average number of shares – basic and diluted	**39,435,277**	27,508,426	**33,015,721**	21,145,518

(1) The Company earned electricity revenues for the 183-day period October 1, 2015 to March 31, 2016 which equates to daily electricity sales volumes of 162 mcf per day.

Sales Volumes

	Three months ended March 31		Year ended March 31	
	2016	2015	**2016**	2015
Sales volumes				
Oil and gas sales volumes				
Oil (bbls)	**–**	11,104	**17,279**	49,896
Condensate (bbls)	**235**	230	**906**	1,013
Gas (mcf)	**14,966**	34,684	**92,345**	141,772
Total oil and gas sales volumes (boe)	**2,729**	17,114	**33,576**	74,538
Electricity (gas) sales volumes (mcf)	**17,943**	–	**29,695**	–
Total sales volumes (boe)	**5,720**	17,114	**38,525**	74,538
Daily sales volumes				
Daily oil and gas sales volumes				
Oil (bbls/day)	**–**	123	**47**	137
Condensate (bbls/day)	**3**	3	**2**	3
Gas (mcf/day)	**164**	385	**252**	388
Total daily oil and gas sales volumes (boe/day)	**30**	190	**92**	204
Daily gas sales volumes for electricity (mcf/day)	**197**	–	**81**(1)	–
Total daily sales volumes (boe/day)	**63**	190	**105**	204

(1) The Company earned electricity revenues for the 183-day period October 1, 2015 to March 31, 2016 which equates to daily electricity sales volumes of 162 mcf per day.

<u>Oil Volumes</u>

Production

As at March 31, 2016, there were 2,267 bbls (2015 – 2,275 bbls) of unsold oil production held in inventory. 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, 2016 of 7 bbls and 45 bbls of oil per day, respectively. The average daily production rate for the three months and year ended March 31, 2015 was 164 and 147 of oil per day, respectively.

Production volumes decreased in the 2016 periods due to the collapse of production tanks in August 2015 at a nearby government facility. The collapse of the tank created an environmental disaster; to clean-up the oil spill and mitigate consequences, the state operator shutdown of transmission pipelines and suspended production and waterflood operations. As a consequence, the Company's production was severely curtailed by this emergency situation as the Company was forced to suspend production and was also unable to transport all the produced oil, which had filled our tanks to capacity, to the port terminal. At the re-commencement of production in December 2015, high-water levels caused by clean-up pumping by other operators in neighboring areas further disrupted production. In addition, management chose to reduce oil production during the fourth quarter ended March 31, 2016 to reduce the variable portion of operating costs.

Sales

The Company did not sell any oil volumes in the fourth quarter ended March 31, 2016 due to an Argentine industry-wide reduction in oil exports as well as lower domestic consumption in the period. Oil sales volumes decreased by approximately 65% from 49,896 bbls in fiscal 2015 to 17,279 bbls in fiscal 2016 primarily due to a lack of sales in the fourth quarter combined with lower produced volumes available for sale throughout the year.

<u>Gas Volumes</u>

Total gas sales volumes decreased by approximately 14% from 34,684 mcf in the fourth quarter ended March 31, 2015 to 32,909 mcf in the fourth quarter ended March 31, 2016 and decreased by approximately 5% in the year ended March 31, 2016 from 141,772 mcf in fiscal 2015 to 122,040 mcf in fiscal 2016. The decrease gas sales volumes in the 2016 periods was due to a temporary interruption of production at the Torrente Cigno concession for required maintenance during April 2015, a malfunctioning compressor in the Lucera concession which persisted into the second quarter and reduced production to 50% of the normal level, a temporary interruption in production from the Sant'Andrea well in October 2015 following the expiration of a sales contract and a temporary interruption in production from the Petrilli well in November 2015 due to high pipeline pressure which is expected to be remedied in January 2017 . A new sales contract in Sant'Andrea is expected to commence in November 2016.

Gas produced by from Torrente Cigno concession is used to produce electricity. Prior to October 1, 2015, the Company sold its 45% share of this gas to the electricity producer and included such sales in oil and gas revenues. Following the Company's acquisition of co-generation equipment and facilities on October 1, 2015, the Company became the electricity producer and now classifies its 45% share of Torrente Cigno gas production as gas sales volumes for electricity. Daily gas sales volumes for electricity from Torrente Cigno were 197 mcf per day in the fourth quarter ended March 31, 2016 versus 162 mcf/day in the October 1, 2015 to March 31, 2016 period. Daily volumes are lower in the October 1, 2015 to March 31, 2016 period is due to a halt in production for the majority of November 2015 due unscheduled maintenance to resolve issues with pressure control valves.

Condensate Volumes

Condensate sales volumes increased by approximately 2% from 230 bbls in the fourth quarter ended March 31, 2015 to 235 bbls in the fourth quarter ended March 31, 2016 and decreased by approximately 11% in the year March 31, 2016 from 1,013 bbls in fiscal 2015 to 906 bbls in fiscal 2016. The year-over-year decrease was due to the stoppages in October and November 2015 and the temporary interruption of production for required maintenance during April 2015 at the Torrente Cigno concession as described above.

Revenue

	Three months ended March 31		**Year ended March 31**	
	2016	2015	**2016**	2015
Commodity Prices				
Oil and gas prices				
Oil ($/bbl)	**–**	74.66	**74.31**	74.30
Condensate ($/bbl)	**56.62**	85.45	**69.55**	86.81
Gas ($/mcf)	**6.51**	6.15	**5.05**	6.98
Total oil and gas ($/boe)	**40.56**	62.06	**54.00**	64.19
Electricity ($/mcf)	**7.84**	–	**8.82**	–
Total ($/boe)	**43.94**	62.06	**53.86**	64.19
Revenue ($)				
Oil and gas revenue				
Oil (Argentina)	**–**	828,993	**1,283,940**	3,707,073
Condensate (Italy)	**13,302**	19,613	**63,033**	87,961
Gas (Italy)	**97,397**	213,402	**466,131**	989,404
Total oil and gas revenue	**110,699**	1,062,008	**1,813,104**	4,784,438
Electricity revenue (Italy)	**140,620**	–	**262,054**	–
Total revenue	**251,319**	1,062,008	**2,075,158**	4,784,438

Oil Revenue

Gross oil revenue earned in Argentina was $nil for the three months ended March 31, 2016 versus $828,993 in the three months ended March 31, 2015 and $1,283,940 for fiscal 2016 versus $3,707,073 for fiscal 2015. The decrease in oil revenue in the 2016 periods is due a decline in the price of oil combined with the temporary decrease in oil production and sales volumes described above in the Production section.

In July and August 2015, the Company earned US$61 per barrel which decreased to US$60 per barrel in September 2015 and US$59 per barrel in December 2015. The weakening of both the Argentine Peso and the Canadian dollar resulted in an amplified CAD price of oil per barrel in fiscal 2016.

Condensate Revenue

The price per bbl received for condensate during the three months and year ended March 31, 2016 was $56.62 per bbl and $69.55 per bbl, respectively, as compared to $85.45 per bbl and $86.81 per bbl earned on condensate sales during the three months and year ended March 31, 2015, respectively. The condensate price per bbl is lower in the 2016 periods due to a decrease in the base price of Brent crude which is used in the formulas to establish the price of condensate.

Gas and Electricity Revenue

The price per mcf received for natural gas is lower in the year ended March 31, 2016 as compared to the year ended March 31, 2015 due primarily to the effect of gas sales volumes from the Torrente Cigno concession which the Company sold to an electricity producer until September 30, 2015 and earned a lower price of approximately $1.44/mcf compared to gas sales volumes from the Company's other Italian concessions which were sold on the natural gas market for an average price of $7.64/mcf.

During fiscal 2016, up to September 30, 2015, the proportion of gas sales to the lower-priced electricity market was higher than in the comparative period.

Until January 1, 2016, gas prices were also impacted by fluctuations in the base price of Brent crude which is used in the formulas to establish the price of natural gas resulting in a lower gas sales price in the first half of fiscal 2016 due to the continued decline in the price of Brent crude. As of January 1, 2016, gas prices are based on the European gas price which has also declined since 2015.

The Company acquired the co-generation plant from the electricity producer as of October 1, 2015. Although the Company continues to supply its Torrente Cigno gas volumes to the co-generation plant, as plant owner, the Company now earns the higher electricity rate on those gas volumes. During the three months and year ended March 31, 2016, the Company earned $140,620 and $262,054, respectively, of which equates to $7.84/mcf and $8.82/mcf, respectively. The electricity price declined due to a decrease in the market price of electricity in Italy.

Royalties and Operating Expenses

	Three months ended March 31		**Year ended March 31**	
	2016	2015	**2016**	2015
Royalties ($)	**–**	74,655	**115,408**	345,132
% of Argentine revenues (1)	**–**	9%	**9%**	9%
$/bbl of oil	**–**	6.72	**6.68**	6.92
$/boe (total Company)	**–**	4.36	**3.00**	4.63
Operating and transportation ($)				
Argentina	**–**	181,666	**1,111,690**	1,437,731
Italy	**453,870**	71,091	**692,319**	375,336
Total	**453,870**	252,757	**1,804,009**	1,813,067
Argentina $/bbl	**–**	16.36	**64.34**	28.81
Italy $/boe	**79.35**	11.83	**32.59**	15.23
Total $/boe	**79.35**	14.77	**46.83**	24.32

(1) Royalties are charged on Argentine oil revenues only.

Royalties

Royalties as a percentage of Argentine oil revenues in the year ended March 31, 2016 are comparable to the three months and year ended March 31, 2015.

Operating and transportation costs

Argentina

Operating and transportation costs per bbl in Argentina are higher in the year ended March 31, 2016 due primarily to the decrease in sales volumes as described in the Sales Volumes section. Fixed costs combined with higher costs for repairs and maintenance and upgrades to certain environmental and safety conditions over significantly lower sales volumes resulted in higher operating and transportation costs per boe in fiscal 2016.

Italy

Operating and transportation costs per boe in Italy are higher in the three months and year ended March 31, 2016 due to an increase in the gas compression fee for which the annual adjustment was received and recorded in the fourth quarter, the receipt of additional overhead charges from the operator of certain of the concessions, additional water disposal charges which were incorrectly invoiced at a lower amount in a previous quarter and maintenance on pressure control valves in the Torrente Cigno concession.

Operating and transportation costs in Italy for the period since October 1, 2015 also include the cost of the un-owned 55% working interest share of gas volumes from the Torrente Cigno concession purchased to generate electricity and related revenues. During the three months ended March 31, 2016 and six month period October 1, 2015 to March 31, 2016, the Company purchased 14,364 mcf and 36,294 mcf of gas, respectively, for $20,667 ($1.44 per mcf) and $54,179 ($1.49 per mcf), respectively.

These additional costs combined with the effect of fixed costs over lower overall volumes increased operating and transportation costs per boe in Italy in the 2016 periods.

Netbacks

	Three months ended March 31		Year ended March 31	
	2016	2015	**2016**	2015
Argentina ($/bbl)				
Revenue	**–**	74.66	**74.31**	74.30
Royalties	**–**	(6.72)	**(6.68)**	(6.92)
Operating expenses	**–**	(16.36)	**(64.34)**	(28.81)
Field netback	**–**	51.58	**3.29**	38.57
Italy ($/boe)				
Revenue	**43.94**	38.77	**37.24**	43.72
Operating expenses	**(79.35)**	(11.83)	**(32.59)**	(15.23)
Field netback	**(35.41)**	26.94	**4.65**	28.49
Total Company ($/boe)				
Revenue	**43.94**	62.06	**53.86**	64.19
Royalties	**–**	(4.36)	**(3.00)**	(4.63)
Operating expenses	**(79.35)**	(14.77)	**(46.83)**	(24.32)
Field netback	**(35.41)**	42.93	**4.03**	35.24

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	
	2016	2015	**2016**	2015
Professional fees	**688,543**	407,172	**1,119,205**	940,015
Office	**181,864**	302,294	**567,635**	716,303
Administrative	**122,712**	135,403	**502,592**	456,682
Salaries and benefits	**94,796**	99,885	**433,127**	481,983
Travel	**28,682**	4,176	**475,913**	100,403
	1,116,597	948,930	**3,098,472**	2,695,386

G&A expenses increased by 18% in the three months ended March 31, 2016 versus the 2015 comparative period and by 15% in fiscal 2016 versus fiscal 2015.

Professional fees were higher in the three months and year ended March 31, 2016 versus the 2015 comparative periods due to business development and fundraising activities and the cost of engineering services related to the Azerbaijan REDPSA negotiations and year-end evaluations.

Office expenses are lower in the three months and year ended March 31, 2016 due to management's efforts to reduce costs.

Administrative expenses incurred in the three month ended March 31, 2016 are comparable to the three months ended March 31, 2015. Administrative expenses are higher in fiscal 2016 due to an increase in corporate activity and the establishment of an Azerbaijan office in the second quarter of 2015.

Salaries and benefits incurred in the three month ended March 31, 2016 are comparable to the three months ended March 31, 2015. Salaries and benefits are lower in fiscal 2016 as salary increases provided in December 2015 were offset by the lack of bonuses in fiscal 2016. Salaries and benefits for fiscal 2015 include $200,000 of bonuses paid to senior executives.

Travel costs are higher in the three months and year ended March 31, 2016 due to an increase in travel activities, particularly in relation to negotiations of the Azerbaijan REDPSA and the establishment of an Azerbaijan office.

Impairment of inventory

In connection with increasing costs of production in Argentina, the Company recognized $228,657 of impairment on the value of inventory as the per barrel cost of production for oil volumes in inventory at March 31, 2016 exceeded the net realizable value of inventory based on a selling price of US$59 per barrel.

Depletion and depreciation

	Three months ended March 31		Year ended March 31	
	2016	2015	**2016**	2015
Argentina	**5,907**	31,898	**64,111**	381,294
Italy	**76,444**	39,940	**267,442**	286,621
Total	**82,351**	71,838	**331,553**	667,915
Argentina $/bbl	**–**	2.87	**3.71**	7.64
Italy $/boe	**13.36**	6.65	**12.59**	11.63
Total $/boe (1)	**14.40**	4.20	**8.61**	8.96

(1) Includes the effect of depreciation expense on Argentine assets over total Company volumes.

The depletion rate for Argentine properties in year ended March 31, 2016 is lower than the comparative 2016 period due to the impact of an increase in the estimated total proved plus probable reserves of 545,000 bbls reported in the March 31, 2016 reserve report compared to 780,000 bbls reported in the March 31, 2015 reserve report.

The depletion rate for the Italian properties for the three months and year ended March 31, 2016 is higher than the comparative 2015 periods due primarily to a decrease in estimated total proved plus probable reserves of 1,683,000 bbls reported in the March 31, 2016 reserve report compared to 2,951,000 bbls reported in the March 31, 2015 reserve report. The impact of the decrease in reserves was partially offset by the decrease in estimated future development costs of $1.3 million as of March 31, 2016 compared to $4.2 million as of March 31, 2015.

Impairment of property and equipment

As at March 31, 2016 and 2015, the Company identified certain business risks related to its Italian and Argentine CGUs, such as a decrease in forecast prices from those in prior years and the deferral of future capital investment, as indicators of impairment. As a result, the Company performed impairment tests at March 31, 2016 and 2015 and 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 fair value less costs to sell of the Argentine CGU was based on 20% (2015 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at March 31, 2016 and 2015. The estimated recoverable amount of the Argentine CGU at both March 31, 2016 and 2015 was higher than the carrying amounts at March 31, 2016 and 2015 and therefore no impairment was recognized.

The estimated fair value less costs to sell of the Italian CGU was based on 15% (2015 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at March 31, 2016 and 2015. The estimated recoverable amount of the Italian CGU at March 31, 2016 was lower than the March 31, 2016 carrying amount resulting in the recognition of $5,025,000 of impairment in the 2016 consolidated statement of loss and comprehensive loss. The estimated recoverable amount of the Italian CGU at March 31, 2015 was higher than the March 31, 2015 carrying amount and therefore no impairment was recognized.

Net loss

The Company reported net losses of $5,568,266 and $7,674,448 for the three months and year ended March 31, 2016 compared to net losses of $984,864 and $2,376,281, for the three months and year ended March 31, 2015.

SUMMARY OF QUARTERLY INFORMATION

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

	Net revenue $	Net loss $	Per share * $
2016			
Fourth quarter ended March 31, 2016	251,319	(5,568,266)	(0.14)
Third quarter ended December 31, 2015	284,408	(889,470)	(0.03)
Second quarter ended September 30, 2015	524,996	(868,697)	(0.03)
First quarter ended June 30, 2015	899,027	(348,015)	(0.01)
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)

* 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 due to a lack of oil sales offset by an increase in electricity revenue. Net loss increased due primarily to an increase in G&A expenses and inventory impairment and $5,025,000 of impairment related to the Company's Italian properties.
- Net revenue decreased in the third quarter ended December 31, 2015 due to a decrease in sales volumes, primarily oil sales volumes, combined with a decrease in the price earned for oil. Net loss increased due to the decrease in net revenues combined with an increase general and administrative expenses.
- Net revenue decreased in the second quarter ended September 30, 2015 due to a decrease in sales volumes and in commodity prices for natural gas and NGLs. Net loss increased due to the decrease in net revenues combined with an increase in operating costs.
- Net revenue decreased in the first quarter ended June 30, 2015 due to a decrease in both sales volumes and commodity prices. Net loss decreased as compared to the previous quarter due a decrease in general and administrative expenses and a net foreign exchange gain in the quarter.
- 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.

LIQUIDITY RISK AND CAPITAL RESOURCES

As at March 31, 2016, the Company had a working capital deficit of $6,709,115 compared to a working capital deficit of $3,407,115 as at March 31, 2015. During the year ended March 31, 2016, the Company incurred $3,998,042 on operating items and $414,921 on capital expenditures and reclassified $911,073 of debt from long-term to current. The Company also received $454,338 of bank debt proceeds net of repayments and and received $517,731 of net proceeds on the completion of a unit private placement of bonds and $1,049,967 of net proceeds on the completion of a unit private placement of common shares.

As at March 31, 2016, the Company had $8,201,167 (March 31, 2015 – $5,606,441) of current liabilities for which the Company's $137,982 (March 31, 2015 – $936,499) cash balance is insufficient to settle the current liabilities.

As of March 31, 2016, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

		Carrying amount	Contractual cash flows	Due on or before March 31 2017	Due on or before March 31 2018	Due between April 2018 and August 2020
Trade and other payables	$	3,266,503	3,266,503	3,266,503	–	–
Oil share agreement		1,027,504	1,027,504	1,027,504	–	–
Loans payable		3,883,761	4,847,545	4,131,854	415,318	300,373
Convertible notes		697,046	872,077	872,077	–	–
Bonds payable		563,103	676,244	64,911	64,911	546,422
	$	9,437,917	10,689,873	9,362,849	480,229	846,795

GOING CONCERN

As at March 31, 2016, 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 March 31, 2016 audited 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, 2016 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, 2015	29,292,081	17,228,852	175,000
Issued	14,302,325	13,235,046	–
Expired	–	(825,000)	(175,000)
Balance – March 31, 2016	43,594,406	29,638,898	–
Issued	15,289,400	12,591,612	–
Expired	–	–	–
Balance – Date of MD&A	58,883,806	42,230,510	–

RELATED PARTY TRANSACTIONS

Related party transactions during the three months and year ended March 31, 2016 and 2015 not disclosed elsewhere in this MD&A are as follows:

a) Included in general and administrative expenses is $282,367 (2015 – $257,837) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at March 31, 2016, $nil (2015 – $nil) was included in trade and other payables in respect of these charges.

b) Included in interest expense is $nil (2015 – $2,466) on $50,000 Swiss Francs of convertible notes held by a company controlled by a director of the Company, of which $nil is included in trade and other payables as at March 31, 2016 (2015 – $nil). 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 $52,591 (2015 – $nil) due to an officer and director of the Company in respect of short-term, unsecured, non-interest bearing advances made to the Company.

d) Included in trade and other payables is $8,966 (2015 – $52,313) due to officers and directors of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officers and directors will be reimbursed.

e) Included in trade and other payables is $30,586 (2015 – $nil) due to officers and directors of the Company in respect of salaries.

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, Argentina, Albania, Azerbaijan and Oman. Management intends to focus its efforts toward acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator.

The Company's plans for fiscal 2017 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 mid-2017.

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 2017. 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% working interest) through the sweetening of the produced gas so that it can be sold through the national pipeline grid. This development plan will be submitted to the Ministry, for its analysis and required prior approval. Approval is expected to be received in December 2016.

(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 Alberto and Don Ernesto fields.

In Argentina, the recently elected and pro-business government continues to provide pricing stability and maintain a regime that encourages exploration and development activity in spite of the current oil market volatility. While pricing for Zenith's Escalante petroleum produced in Chubut maintained a sales price with a floor of USD 59 per barrel in December 2015 and January 2016, production and the price for the remainder of 2016 has now been fixed with a floor of USD 54.90, which continues to exceed the current world price for WTI which fell below USD 30 in early 2016. Management believes that Petrolera Patagonia will continue to benefit from the government's capacity to provide pricing stability as the energy industry continues to rebuild under the new regime.

In light of changes to the commodity price environment, Zenith's wholly-owned subsidiary, 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.

Zenith management also believes it will be able to maximize value from its wholly-owned Argentinean operations through the recent devaluation of the Argentinean Peso. On December 10, 2015, the date the new President, Mauricio Marcì was sworn into office, 1 Peso traded at the equivalent of US$0.1027. As of July 15, 2016, 1 Peso traded at the equivalent of US$0.06778, representing a 34% decline. In Argentina revenues are earned in US Dollars and collected in Pesos; expenses paid in Pesos. This situation allows Zenith to moderate the effects of the expected oil price contraction on the Argentinean market with savings resulting from the peso devaluation.

(c) **Azerbaijan:** On June 20, 2016, the REDPSA for the Block in the Republic of Azerbaijan was ratified by the Parliament of the Republic of Azerbaijan. The Block covers an area of 642.4 square kilometres, and currently produces approximately350 barrels of crude oil per day, having however produced significantly larger quantities in previous years. Minor quantities of natural gas are also produced and used at the site.

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

Zenith's corporate office in Baku, the capital of Azerbaijan, is a two and a half hour drive from the operational office presently used to manage the producing fields, which are in the southern region of Azerbaijan. Azeri management familiar with the properties will initially be supplemented by new technical and operational personnel from Zenith, however the Company will also begin to actively identify international management and specialists willing to relocate to Azerbaijan as part of its strategy to grow production from the Block. Zenith Aran, the Company's wholly-owned subsidiary, will act as the operating entity for the management of the Azerbaijan oil properties.

The handover and the start of the production from the Block is expected to commence in late July 2016. The Company plans to evaluate the performance of key wells and will then implement a program of work-overs and facilities improvements.

(d) **Albania:** On May 11, 2016, the Company was informed that its bid for the onshore exploration concession denoted as Block C was successful. The geological setting of Block C is part of the Peri-Adriatic molasses foredeep and possesses similarities to the southern Italian Bradanic foredeep, essentially mirroring the geological structure on the western side of the Adriatic Sea, approximately 100km away. The type of petroleum system identified on Block C is generally associated with rich natural gas reservoirs, including the prolific Albanian Divjake-Ballaj gas field, with an estimated 2.2 billion cubic meters (77.7 Bcf) of OGIP (Source: Albpetrol S.h.a.). Past exploration activity in the region of Block C has also indicated the potential for oil prospects within this block. Zenith is particularly interested in the hydrocarbon potential of deeper carbonate reservoirs given that all producing fields in Albania have been found above a depth of 2,200 meters due to limited seismic data and relatively sparse exploratory drilling, and therefore deeper targets may provide additional opportunities.

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 $137,982 (2015 – $936,499) and trade and other receivables of $787,477 (2015 – $713,031).

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

	2016	2015
Oil and natural gas sales	$ 475,219	$ 383,067
Stamp tax and other tax withholdings	216,926	234,394
Goods and services tax	12,261	16,964
Other	83,071	78,606
	$ 787,477	$ 713,031

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

The Company considers its receivables to be aged as follows:

	2016	2015
Current	$ 542,962	$ 443,999
90 + days	244,515	269,032
	$ 787,477	$ 713,031

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 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	
	2016	2015	2016	2015
Argentine Peso	0.0889	0.1438	0.1270	0.1357
US dollar	1.2971	1.2683	1.3114	1.1387
Euro	1.4775	1.3623	1.4476	1.4382
Swiss Franc	1.3535	1.3057	1.3478	1.2248
British Pound	1.8652	1.8834	1.9755	1.8320

The following represents the estimated impact on net loss of a 10% change in the closing rates as at March 31, 2016 and 2015 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	2016	2015
Argentine Peso	$ 57,500	$ (14,100)
US dollar	284,400	270,200
Euro	134,500	10,400
Swiss Franc	104,500	104,500
British Pound	53,300	3,400
	$ 634,200	$ 374,400

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, 2016, 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, 2016 of approximately $23,300 (2015 – $49,500) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the year ended March 31, 2016 of approximately $13,100 (2015 – not applicable).

Oil prices in Argentina are the results of formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. As at March 31, 2016, a 5% change in the price of oil would represent a change in net loss for the year ended March 31, 2015 of approximately $64,300 (2015 – $185,600).

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 note payable, loans payable, convertible notes and bond payable and therefore is not exposed to interest rate risk.

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.

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.

Modifications of financial liabilities

The Company must estimate the discount rate used to determine the discounted present value of the cash flows under the new terms of the financial liability and the discounted present value of the remaining cash flows of the original financial liability at the date the terms of an existing liability are modified.

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 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.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

IAS 7 Statement of Cash Flows

Amendments to IAS 7 Statement of Cash Flows require disclosures that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 12 Income Taxes

Amendments to IAS 12 Income Taxes clarify the recognition of deferred tax assets for unrealized losses related debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017.

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.

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

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.

OTHER

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