ZENITH ENERGY

UNAUDITED INTERIM FINANCIAL INFORMATION FOR NINE MONTHS ENDED DECEMBER 31, 2019 AND COMPARATIVE PERIOD (DECEMBER 31, 2018).

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2019.

Management's Responsibility

To the Shareholders of Zenith Energy Ltd.:

The accompanying unaudited condensed interim consolidated financial statements of Zenith Energy Ltd. (the "**Company**" or the "**Group**") for the three and nine months ended December 31, 2019 have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the Company. The unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on currently available information.

(signed) "Andrea Cattaneo"
President and Chief Executive Officer

(signed) "Luca Benedetto"
Chief Financial Officer

February 14, 2020.

Calgary, Alberta

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COMPANY INFORMATION

Directors
Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)
Andrea Cattaneo (Chief Executive Officer & President, Executive Director)
Luigi Regis Milano (Executive Director)
Dario Ezio Sodero (Non-Executive Director)
Erik Larre (Non-Executive Director)
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HIGHLIGHTS

Highlights for the nine months ended December 31, 2019, include the following:

a) The Group generated gross revenues from oil and natural gas of CAD$3,851k (2018 – CAD$5,205k) and from electricity CAD$490k (2018 – CAD$478k) in the nine months ended December 31, 2020.

b) During the three and nine months ended December 31, 2019 the Company produced 18,597 and 58,993 bbls of oil from its assets in Azerbaijan, as compared to 20,421 and 65,946 bbls of oil produced in the 2018 similar period.

c) During the three and nine months ended December 31, 2019 the Company sold 17,857 and 56,980 bbls of oil from its assets in Azerbaijan, as compared to 21,043 and 64,611 bbls of oil sold in the 2018 similar period. As at December 31, 2019, inventory consists of CAD $122k (2018 – CAD $6k) of crude oil that has been produced but not yet sold.

d) During the three and nine months ended December 31, 2019, the Company sold 3,892 and 9,419 mcf of natural gas from its Italian assets, as compared to 3,615 and 7,593 mcf of natural gas in the 2018 similar period.

e) During the three and nine months ended December 31, 2019, the Company sold 2,805 and 8,253 MWh of electricity from its Italian electricity production assets, as compared to 2,114 and 6,680 MWh for the corresponding period of 2018.

f) During the three and nine months ended December 31, 2019, the Company sold 208 and 208 bbls of condensate from its Italian assets, as compared to 18 and 628 bbls of condensate in the 2018 similar period.

g) On October 9, 2019, the Company provided an update on drilling results at well C-37 in the Jafarli oilfield, confirming that continued flow testing of the well recorded an increased production rate.

Further stimulation of the well, which may include swabbing operations as well as the performance of nitrogen stimulation, may further increase the rate of production. The Company will update the market in due course regarding these operations.

h) On October 10, 2019, The Company announced that ARC Ratings, SA. ("**ARC Ratings**") had confirmed its final public "B+" issuer medium and long-term credit rating, with Positive outlook, assigned to the Company.

i) On October 22, 2019, the Company announced the closing of a Private Placement on the Merkur Market of the Oslo Stock Exchange, first announced to the market on October 21, 2019.

The Company successfully raised gross proceeds of NOK 9,808,000 (approximately GBP 824,000 or CAD$ 1,403,000) to subscribe for 28,022,857 common shares of no-par value in the capital of the Company ("**New Common Shares**") at a price of NOK 0.35 per New Common Share (approximately £0.03 or CAD$0.05).

j) On October 24, 2019, the Company announced that:

- It had repaid the first tranche of the USD$1,485,000 loan which, on October 1, 2019, was successfully reduced, following successful negotiations with the lender, at a significant discount for a revised total amount of US$1,000,000, representing a profit of US$1,080,523.
- It had successfully repaid the unsecured notes for £90,000, with related accrued interest.
- It had received three Conversion Notices ("**Conversion**") from the consortium of lenders (the "Lenders") for the US$1,500,000 Convertible Loan Facility ("**Convertible Loan**") announced on September 5, 2018. A total of 11,421,402 Conversion Shares, equivalent to a total amount of US$340,000, were issued.

k) On November 1, 2019, the Company announced the final closing of a private placement on the Merkur Market of the Oslo Børs.

Following up on the Company's previous announcement of October 22, 2019, whereby the Company announced that it had increased participation in its Norwegian private placement, the Company announced that it had successfully closed a further increased amount of 8,977,143 new common shares for additional gross proceeds of NOK 3,142,000 (approximately GBP 265,000.00 or CAD 447,000.00). The aggregate number of common shares issued as part of the private placement was 37,000,000. The private placement was completed at a subscription price of NOK 0,35 per share (3 Pence or CAD cents 5.02).

l) On November 1, 2019, the Company announced that it had agreed to supplement an existing convertible loan agreement (the "**Loan Agreement**") it had with a consortium of lenders (the "**Lenders**") by increasing the maximum amount that may be loaned by the Lenders to the Company under the Loan Agreement by an additional USD$1,000,000, from USD$1,500,000 to USD$2,5000,000. The conversion terms under the Loan Agreement are the same provided in the original loan announced on September 5, 2018, and successfully renegotiated on March 11, 2019. The Loan Agreement provides for an initial immediate advance of USD$500,000 and a further advance of USD$500,000, to be provided at a later time.

m) On November 6, 2019, the Company announced the approval of its Base Prospectus ("**Prospectus**") for the issuance of EUR 25,000,000 unsecured, multi-currency Euro Medium Term Notes at par value (the "**Notes**") on the Third Market (MTF) of the Vienna Stock Exchange ("**Wiener Borse AG**").

The Notes can be issued in tranches at Zenith's discretion up to an aggregate principal amount not to exceed the value of Euro 25,000,000 and in any currency agreed between Zenith and the relevant investor including EUR, CAD$, GBP, USD, and CHF.

The current maximum aggregate principal amount of all Notes at any one time outstanding will not exceed Euro 25,000,000 (or its equivalent in other currencies), subject to an increase from time to time in accordance with applicable law.

The Notes are governed by Austrian law and, since the Notes are not convertible into equity of Zenith, the issuance of the Notes is not subject to the approval of the TSX Venture Exchange in Canada.

The issue of the Notes is aligned with the Company's strategy of diversifying its financing towards non-equity dilutive funding to support its successful development.

n) On December 3, 2019, the Company announced that it had signed a share purchase agreement ("**SPA**") with AIM quoted Coro Energy Plc ("**Coro**") for the acquisition of Coro's entire natural gas production and exploration portfolio in Italy ("**Acquisition**"). The Acquisition will add material production to the Company's existing Italian operations, resulting in the creation of a significantly enlarged, revenue generating, low-risk production and exploration portfolio.

Coro's Italian portfolio consists of 100% working interests in four producing natural gas concessions: Sillaro, Rapagnano, Casa Tiberi and Bezzecca, as well as one production concession which is development ready, S. Alberto. Two exploration concessions, Laura and Santa Maria Goretti complete the portfolio.

Independently assessed 2P reserves of 7.5 BCF as of January 1, 2018 (CGG Services (UK) Limited CPR - Reference No: BP512 - dated March 1, 2018).

Zenith and Coro entered into a conditional share purchase agreement in respect of the purchase of the entire issued capital of Coro Europe Limited by Zenith on December 2, 2019. The consideration for the Acquisition is payable in common shares in Zenith and is divided into two parts.

An initial £402,000 is payable at completion in common shares in the capital of Zenith ("**Consideration Shares**") at a price of £0.06 (equivalent to approximately NOK0.71 or CAD$0.10) per Consideration Share with a six-month hold period.

The second part of the consideration, up to £3.5 million, is also payable in shares at the closing price of Zenith shares on the issue date plus 40 per cent. of such closing price only in the event that production of natural gas extracted and recovered from the Acquisition's Italian assets exceeds an average of 100,000 scm/day over a period of four consecutive months (equivalent to approximately 590 BOE per day).

Completion of the Acquisition is conditional, inter alia, on the approval of sale by the Italian Ministry of Economic Development.

The Acquisition is also subject to final regulatory approval from the TSX Venture Exchange.

o) On December 17, 2019, the Company announced a Private Placement on the Merkur Market of the Oslo Stock Exchange.

The Company had successfully raised gross proceeds of NOK 7,700,000 (approximately £638,000 or CAD$1,123,430) to subscribe for 35,000,000 common shares of no-par value in the capital of the Company ("**New Common Shares**") at a price of NOK 0.22 per New Common Share (approximately £0.02 or CAD$0.03).

p) On December 27, 2019 , the Company announced that it had signed a conditional share purchase agreement ("**SPA**") with AIM quoted Anglo African Oil & Gas plc ("**AAOG**") for the acquisition of an 80 percent interest in AAOG's fully owned subsidiary in the Republic of the Congo, Anglo African Oil & Gas Congo S.A.U ("**AAOG Congo**") ("**Acquisition**").

The SPA is conditional, inter alia, on the passing of an ordinary resolution of shareholders in AAOG in a General Meeting approving the Acquisition and certain regulatory requirements in the Republic of the Congo including consent of the Minister of Hydrocarbons ("**Completion**").

Following Completion of the Acquisition, Zenith will own 80 percent of AAOG Congo which has a 56 percent majority interest in, and is operator of, the Tilapia oilfield in the Republic of the Congo (the "**License**"). The remaining 44 percent is held by the national oil company, Société Nationale des Pétroles du Congo ("**SNPC**").

The License is located in the Lower Republic of the Congo Basin, West African Atlantic Margin, which extends from Gabon down to Angola, a prolific hydrocarbon region in which certain individual wells have recorded production rates of up to 5,000 barrels of oil per day. It is situated 1.8km offshore and entered into production in 2008. Having been drilled from onshore, there is no requirement for offshore drilling equipment. Oil storage and processing facilities are a 45-minute drive from Pointe-Noire and 17km from the nearest refinery.

Successful recent drilling undertaken during 2018 and 2019 had identified multiple potential productive reservoirs within the License across a number of formations including the regionally proven Mengo and Djeno reservoirs. This had confirmed the transformational potential productivity to be obtained from the License. Recent expert wireline log analysis commissioned by AAOG Congo after drilling activities in the Djeno formation had indicated that reservoir quality is "between good and excellent".

Zenith intends to begin preparations for drilling activities in well TLP-103C as soon as it assumes operational control of the License.

The Company intends to complete negotiations with the Congolese Ministry of Hydrocarbons to obtain a new 25-year license for the Tilapia oilfield once the SPA is effective.

Pursuant to the terms of the SPA, Zenith had agreed to acquire 80% of the issued share capital of AAOG Congo for a consideration of £1 million, of which £500,000 is to be satisfied in cash to be paid in six equal monthly instalments with the first instalment due on completion and the last being six months later, and £500,000 to be satisfied by the issue of ordinary shares in the share capital of Zenith to be issued at the volume weighted average price of a Zenith common share for a period of 14 trading days prior to Completion ("Consideration Shares").

AAOG had agreed that it will not dispose of the Consideration Shares for a period of six months from completion and thereafter will dispose of the Consideration Shares in an orderly manner.

In addition, Zenith will fund AAOG's share of an up to US$5.5 million work programme to be agreed post-Completion, and the amount of any signature bonus required for the renewal of the License as agreed with the Congolese Ministry of Hydrocarbons, subject to a cap of US$2 million if the signature bonus is payable in a single instalment and otherwise at an amount to be agreed between the AAOG and Zenith if the signature bonus is payable in multiple instalments.

The SPA contains commercial warranties being given by AAOG which are commensurate for a transaction in the nature and size of the Acquisition. Zenith is also making warranties concerning itself and its shares to AAOG which are commensurate for a transaction of this nature and size. AAOG will also be required to sign up to a tax covenant upon Completion, pursuant to which AAOG shall indemnify Zenith for certain pre-Completion tax liabilities which are not fully provided for in the accounts of AAOG Congo.

The Company had also agreed to standard provisions which govern the day-to-day and usual operations of AAOG Congo in the period from signing to Completion and the SPA contains a standard provision that allows Zenith to not complete if there is a material adverse change in the net asset value of AAOG Congo before Completion.

In addition, the Company and AAOG will sign up to a shareholders' agreement upon Completion which will govern their future relationship as shareholders of AAOG Congo.

The Acquisition is also subject to final regulatory approval from the TSX Venture Exchange.

On January 13, 2020, the Company announced the passing of the resolution by the shareholders of Anglo African Oil & Gas plc ("**AAOG**") to approve the sale of 80 percent in Anglo African Oil & Gas Congo SAU ("**AAOG Congo**") to Zenith (the "**Acquisition**") at the general meeting held that day.

POST-PERIOD HIGHLIGHTS

a) On January 6, 2020, the Company announced that it had reached an agreement to provide a secured loan facility (the "**Facility**") to Anglo African Oil & Gas plc ("**AAOG**") for a total amount of £250,000.
The purpose of the Facility is to assist AAOG in addressing its immediate working capital requirements following the signing of a conditional share purchase agreement for Zenith's acquisition of an 80 percent interest in AAOG's fully owned subsidiary in the Republic of the Congo, Anglo African Oil & Gas Congo S.A.U ("**AAOG Congo**") ("**Acquisition**").

The Facility will be repayable at any time by AAOG with no early repayment penalties and will have an interest rate of 5 percent per annum which will be payable on final repayment.

Zenith will set off sums payable by it to AAOG pursuant to the SPA against the Facility, which means the Facility is essentially an advance on sums payable by Zenith to AAOG pursuant to the SPA. The Facility will be secured on the shares in AAOG Congo.

b) On January 13, 2020, The Company announced that it had entered into a term sheet for a Put and Call Option Agreement with Anglo African Oil & Gas plc ("**AAOG**") over the residual holding of 20 percent in Anglo African Oil & Gas Congo SAU ("**AAOG Congo**") that AAOG will retain ("**the Residual Shares**") following the signing of a conditional share purchase agreement ("**SPA**") for Zenith's acquisition of an 80 percent interest in AAOG Congo (the "**Acquisition**").
The term sheet for the put and call option provides for the following key provisions:

Call Option

The Call Option over the Residual Shares may only be exercised by Zenith on January 16, 2021, and can only be exercised if, as at January 15, 2021, the total production from the Tilapia oilfield has never exceeded an average of at least 2,000 bopd for any period of 30 consecutive days prior to January 15, 2021.
If the Call Option is exercised, the consideration payable by Zenith for the Residual Shares shall be an amount of £1,000,000 (**"Call Option Consideration"**). The Call Option Consideration is to be settled by the issue of common shares in Zenith, the number of common shares to be issued being calculated on a 15-day VWAP (volume-weighted average price) of Zenith's common shares admitted to trading on the London Stock Exchange Main Market for listed securities in the 15-day period immediately prior to exercise of the Call Option.

Put Option

The Put Option over the Residual Shares may only be exercised by AAOG on January 16, 2021 and can only be exercised if, as at January 15, 2021, the total production from the Tilapia oilfield has been an average of at least 4,000 bopd for any period of 30 consecutive days prior to January 15, 2021.
If the Put Option is exercised, the consideration payable by Zenith for the Residual Shares shall be an amount of £2,500,000 (**"Put Option Consideration"**). The Put Option Consideration is to be settled by the issue of common shares in Zenith, the number of common shares to be issued being calculated on a 15-day VWAP of Zenith's common shares admitted to trading on the London Stock Exchange Main Market for listed securities in the 15-day period immediately prior to exercise of the Put Option.

The Company is in the process of agreeing and entering into the final form of the Put and Call Option Agreement and a further announcement will be made on this in due course.

c) On January 13, 2020, Zenith announced the passing of a resolution by the shareholders of Anglo African Oil & Gas plc ("**AAOG**") to approve the sale of 80 percent in Anglo African Oil & Gas Congo SAU ("**AAOG Congo**") to Zenith (the "**Acquisition**") at the general meeting held that day.

d) On January 20, 2020, the Company announced the upcoming issuance of the following unsecured, multi-currency Euro Medium Term Notes at par value (the "**Notes**"):

- EURO 1,000,000 bearing an interest of 10.125 per cent per year (the "**EUR-Notes**")
- GBP 1,000,000 bearing an interest of 10.50 per cent per year (the "**GBP-Notes**")
- USD 1,000,000 bearing an interest of 10.375 per cent per year (the "**USD-Notes**")
- CHF 1,000,000 bearing an interest of 10.00 per cent per year (the "**CHF-Notes**")

The Notes will be issued under Zenith's EUR 25,000,000 multi-currency Euro Medium Term Notes Programme, as announced by the Company on November 6, 2019, and will be due on January 27, 2024. The Notes will be admitted to trading on the Third Market (MTF) of the Vienna Stock Exchange ("**Wiener Borse AG**").

The Notes are governed by Austrian law and, since the Notes are not convertible into equity of Zenith, the issuance of the Notes is not subject to the approval of the TSX Venture Exchange in Canada.
The issue of the Notes is aligned with the Company's strategy of diversifying its financing towards non-equity dilutive funding to support its successful development.

e) On January 21, 2020, the Company entered into the put and call option agreement ("**Put and Call Option Agreement**") with Anglo African Oil & Gas plc ("**AAOG**") over the residual holding of 20 percent in Anglo African Oil & Gas Congo SAU ("**AAOG Congo**") that AAOG will retain (the "**Residual Shares**") following the signing of a conditional share purchase agreement ("**SPA**") for Zenith's acquisition of an 80 percent interest in AAOG Congo (the "Acquisition").

The Put and Call Option Agreement incorporates the key provisions of the agreed term sheet for the put and call option agreement with AAOG which were announced by the Company on January 13, 2020.

f) On January 29, 2020, the Company announced a Private Placement on the Merkur Market of the Oslo Stock Exchange.

The Company successfully raised gross proceeds of NOK 11,105,882 (approximately £935,000 or CAD$1,610,000) to subscribe for 55,529,412 common shares of no-par value in the capital of the Company ("**New Common Shares**") at a price of NOK 0.20 per New Common Share.

g) On January 30, 2020, the Company announced the establishment of its fully owned Norwegian subsidiary, Zenith Energy AS ("**Zenith Norway**").

As announced on December 9, 2019, Zenith intends to use Zenith Norway as a vehicle for intended participation in future licensing bids to be organized by the Norwegian Ministry of Petroleum and Energy, as well as to actively pursue the potential acquisition of working interests in mature energy production assets across Northern Europe.

To this end, the Company will mandate a leading Norwegian law firm to advise on the process of obtaining pre-qualification status for the acquisition of participating interests in Norwegian Continental Shelf ("**NCS**") energy production licenses.

The pre-qualification process entails a general assessment by the Norwegian authorities of Zenith's eligibility to become a licensee. Upon the successful achievement of pre-qualification status, in order to qualify as a licensee, Zenith will need to complete a transaction and obtain approval to become a licensee or operator for the specific production license from the Norwegian Ministry of Petroleum and Energy and the Ministry of Finance.

CEO STATEMENT

Zenith's is defined by its focus on the acquisition and further development of proven onshore oil and gas fields. To maximize shareholder value, Zenith targets acquisitions of production opportunities that offer strong logistics and close proximity to refineries and pipelines. Zenith's management and directors have extensive financial and government experience and possess the technical knowledge to execute this strategy.

The Group operates the largest onshore oilfield in Azerbaijan by cumulative acreage through its fully owned subsidiary, Zenith Aran Oil Company Limited, with independently assessed proven + probable (2P) reserves of 30.6 million barrels of oil. Zenith also operates, or has working interests in, a number of gas production and exploration concessions in Italy with independently assessed 2P reserves of 16.3 BCF. Zenith's Italian operations also include the production of electricity and condensate.

Zenith's strategy is to identify and rapidly seize opportunities in the onshore oil & gas sector. Specific attention is directed to fields formerly controlled by oil majors and state oil companies. These assets often have significant untapped potential and the capacity to produce sizeable volumes of oil & gas with investment in technology and new management.

The Board is committed to sustained growth and exploiting any value accretive opportunities that may present themselves. We continue to evaluate the acquisition of energy production opportunities in major oil producing countries, building on the momentum of our recent progress to further support the Group's expansion.

In recent months, we have signed two conditional acquisitions:

- SPA for the entire natural gas production and exploration portfolio of Coro Energy plc in Italy

- SPA for an 80 percent interest in AAOG plc's Congo subsidiary, AAOG Congo, which has a 56 percent majority interest in, and is operator of, the highly prospective Tilapia oilfield in the Republic of the Congo.

In addition, we have announced that we are in final stage negotiations with a national oil authority to secure a material oil production license in West Africa, formerly operated by an oil major, that last produced at a rate in excess of 1,000 barrels of oil per day.

We believe the aforementioned transactions will enrich, as well as diversify, our asset portfolio by adding significant reserves and prospective production potential. This is line with our company strategy of acquiring assets with significant untapped production potential.

Recent progress is clearly very encouraging, and we look forward to developing our existing portfolio, as well as completing the aforementioned transactions with the intention of delivering significant value to Zenith shareholders.

Andrea Cattaneo
Chief Executive Officer & President
February 14, 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Continuing operations		**Nine months ended**	
		December 31, 2019	**December 31, 2018**
	Note	**CAD$'000**	**CAD$'000**
Revenue	25	4,341	5,683
Cost of sales			
Production costs		(2,726)	(3,619)
Depletion and depreciation	8	(1,356)	(1,237)
Gross (loss)/profit		**259**	**827**
Administrative expenses	5	(4,135)	(6,093)
Operating (loss) / profit		**(3,876)**	**(5,266)**
Finance income	6	662	-
Finance expense	6	-	(610)
Loss for the period before taxation		**(3,214)**	**(5,876)**
Taxation	7	-	(1)
Loss for the period		**(3,214)**	**(5,877)**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		1,776	(427)
Total comprehensive income for the period attributable to owners of the parent		**(1,438)**	**(6,304)**

		Nine months ended	
	Note	**December 31, 2019**	**December 31, 2018**
Earnings per share	20	**CAD$**	**CAD$**
Basic from loss for the period		(0.01)	(0.03)
Diluted from loss for the period		(0.01)	(0.03)
From continuing operations – basic		(0.01)	(0.03)
From continuing operations – diluted		(0.01)	(0.03)

The notes on pages 17 to 53 form part of the Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Nine months ended	
		December 31, 2019	**December 31, 2018**
ASSETS	**Note**	**CAD$'000**	**CAD$'000**
Non-current assets			
Property, plant and equipment	8	1,081,404	1,075,525
Other financial assets	9	408	440
		1,080,719	**1,075,965**
Current assets			
Inventory	10	279	181
Trade and other receivables	11	5,020	2,966
Cash and cash equivalents		1,672	4,133
		6,971	**7,280**
TOTAL ASSETS		**1,088,783**	**1,083,245**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	13	36,886	27,856
Share warrants & option reserve	14	1,080	1,159
Contributed surplus		4,187	4,047
Retained earnings		533,620	538,533
Total equity		**575,773**	**571,595**
Non-current liabilities			
Loans	16	1,055	981
Non-convertible bond and notes	17	4,759	-
Deferred consideration payable	18	482,839	482,953
Decommissioning provision	19	8,804	8,696
Deferred tax liabilities	7	2,398	2,398
Total non-current liabilities		**499,855**	**495,301**
Current Liabilities			
Trade and other payables	15	10,098	10,992
Loans	16	2,200	4,251
Non-convertible bond and notes	17	-	351
Deferred consideration payable	18	857	755
Total current liabilities		**13,155**	**16,349**
TOTAL EQUITY AND LIABILITIES		**1,088,783**	**1,083,245**

Approved by the Board dated on February 14, 2020
Signed ....
Jose Ramon Lopez-Portillo Chairman
The notes on pages 17 to 53 form part of the Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Share capital	Share warrants & option reserve	Contributed surplus	Retained earnings	Total
	CAD$'000	CAD$'000	CAD$'000	CAD$'000	CAD$'000
Balance as at April 1, 2018	**22,792**	**875**	**3,390**	**544,837**	**571,894**
Loss for the period	-	-	-	(5,877)	(5,877)
Other comprehensive income	-	-	-	(427)	(427)
Total comprehensive income	-	-	-	(6,304)	(6,304)
Share issue net of costs – debt settlement	372	-	-	-	372
Share issue net of costs - private placement	4,692	-	-	-	4,692
Value of warrants issued	-	102	-	-	102
Issue of options	-	927	-	-	927
Fair value of options expired	-	(401)	313	-	(88)
Warrants expired	-	(344)	344	-	-
Total transactions with owners recognized directly in equity	5,064	284	657	-	6,005
Balance as at December 31, 2018	**27,856**	**1,159**	**4,047**	**538,533**	**571,595**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Share capital	Share warrants & option reserve	Contributed surplus	Retained earnings	Total
	CAD$'000	CAD$'000	CAD$'000	CAD$'000	CAD$'000
Balance as at April 1, 2019	**28,866**	**1,147**	**4,125**	**534,943**	**569,081**
Loss for the period	-	-	-	(3,214)	(3,914)
Other comprehensive income	-	-	-	1,776	1,776
Total comprehensive income	-	-	-	(1,439)	(1,439)
Share issue net of costs – debt settlement	748	-	-	-	745
Share issue net of costs - private placement	7,114	-	-	-	7,114
Fair value of warrants issued	-	111	-	-	111
Options exercised	158	(116)	-	116	158
Warrants expired	-	(62)	62	-	-
Total transactions with owners recognized directly in equity	8,020	(67)	62	116	8,131
Balance as at December 31, 2019	**36,886**	**1,080**	**4,187**	**533,620**	**575,773**

Reserve	**Description and purpose**
Share capital	Amount subscribed for share capital
Share warrants & option reserve	Relates to increase in equity for services received – equity settled share transactions
Contributed surplus	Expired share options issued in previous years
Retained earnings	Cumulative net gains and losses recognized in the consolidated statement of comprehensive income.

The notes on pages 17 to 53 form part of the Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

		Nine months ended	
		December 31, 2019	**December 31, 2018**
OPERATING ACTIVITIES	**Note**	**CAD $'000**	**CAD $'000**
Loss for the period before taxation		(3,214)	(5,877)
Share options issued		111	942
Options expired		62	88
Foreign exchange		(12,220)	(7,532)
Depletion and depreciation	8	1,356	1,237
Finance (income)/expense	6	662	610
Change in working capital	12	311	7,954
Net cash outflows from operating activities		**(12,932)**	**(2,578)**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(2,916)	(391)
Proceeds from disposal of property, plant and equipment	8	-	216
Net cash outflows from investing activities		**(2,916)**	**(175)**
FINANCING ACTIVITIES			
Proceeds from issue of shares, net of transaction costs		9,501	4,692
Proceeds from exercise of share options		333	-
Repayment of bonds			(34)
Issue of bonds		4,759	-
Proceeds from bonds in treasury		1,721	-
Repayments of loans	16	(3,293)	(168)
Proceeds from loans		366	38
Net cash flows from financing activities		**13,3387**	**4,528**
Net (decrease)/increase in cash and cash equivalents		(2,461)	1,775
Cash and cash equivalents at beginning of period		**4,133**	**2,358**
Cash and cash equivalents at end of period		**1,672**	**4,133**

__Note:__
Foreign exchange reflects the FX translation of the "Property, plant and equipment value", during the period.

Notes to the financial statements

1. Corporate and Group information

The consolidated financial statements of Zenith Energy Ltd. and its subsidiaries (collectively, the "**Group**") have been prepared on the basis set out below. Zenith Energy Ltd are exempt from preparing separate parent company financial statements for the period ended 30 September 2019 in line with Canada Business Corporations Act.

Zenith Energy Ltd. ("**Zenith**" or the "**Group**") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007 and is domiciled in Canada. The address of the Group's registered office is 20th Floor, 250 Howe Street, Vancouver, BC. VC6 3R8, Canada and its business address is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Group is primarily involved in the international development of energy production assets in Azerbaijan, where it operates the largest onshore oilfield in the country, and in Italy, where the Group has a well-balanced portfolio of production and exploration assets producing natural gas, natural gas condensate and electricity.

The Company's website is www.zenithenergy.ca.

Zenith is a public company listed on the TSX Venture Exchange under the ticker symbol, "**ZEE**", on the Main Market of the London Stock Exchange under the ticker "**ZEN**", and with its entire common share capital admitted to trading on the Merkur Market of the Oslo Børs under the ticker "**ZENA-ME**".

2. Basis of preparation

The consolidated financial statements presented in this document have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("IASB").

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

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

Presentation and functional currency
The presentation currency of the Group is the Canadian dollar ("**CAD$**").

Functional currency is the currency of the primary economic environment in which a company operates. The functional currency of the Group's subsidiaries are; United States ("**US$**") dollars for the subsidiaries in Dubai and British Virgin Islands (including Azerbaijan operations), Euros ("**EUR**") for the subsidiary in Italy, Sterling ("**GBP**") for the subsidiary in the United Kingdom and Swiss Francs ("**CHF**") for the subsidiary in Switzerland.

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

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

transactions.
The factors that have determined the adoption of the CAD $ as presentation currency include:

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

Going concern

The financial statements have been prepared on a going concern basis which presumes that the Group will continue its operations in the normal course of business for the foreseeable future.

The Directors have reviewed the cash flow forecasts prepared by management up to and including July 2020, which are prepared on the basis that the Group continues to hold title to the Azerbaijani oil and gas asset and which takes into account the fund raises completed post year end, as well as loan repayments which fall due within 12 months of the date of the signing of the financial statements. The cashflow forecasts also include the capital expenses in respect of well workovers and drilling which the Group believe will be covered by a combination of funding generated by operations and the funds raised post year end, as well as further planned fund raises within the going concern period. The Directors believe that the planned fund raises via the various sources of capital available to the Group will be successful. The Group's ability to raise funds had been demonstrated in the nine months ended December 31, 2019. In order to operate at the levels of production stated in the competent persons report ("CPR") the Group will need to raise additional funding over the life of the project to meet the capital expenditure required over and above the levels included within the cash flow forecasts.

The Directors therefore have made an informed judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group will continue to hold title to the Azerbaijan oil and gas asset and that the Group has access to adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the financial statements.

New standards and interpretations

a. Adoption of new and revised standards
The following IFRSs or IFRIC interpretations are those that were effective for the first time for the financial year beginning April 1, 2018 and relevant to the entity:

Standard / Interpretation/Amendments	
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Clarifications to IFRS 15	Revenue from Contracts with Customers
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions

IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to IFRSs: 2014-2016 Cycle	Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IAS 28 Investments in Associates

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

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

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

Standard / Interpretation	impact on initial application	effective date
IFRS 9	Prepayment features with negative compensation	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatment	January 1, 2019
IFRS 3	Business combinations (amendment)	January 1, 2020
Annual Improvements to IFRSs: 2015-2017 Cycle	Amendments to: IFRS 3 Business combinations, IFRS 11 Joint Arrangements, IAS 12 Income taxes and IAS 23 Borrowing costs	January 1, 2019

The Directors do not expect that the adoption of the Standards listed above, in particular IFRS 16, will have a material impact on the financial statements of the Group in future periods.

3. Significant accounting policies

Consolidation

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

Name	***Country of incorporation and place of business***	***Proportion of ownership interest***	***Principal activity***
Canoel Italia S.r.l. (1)	Genova, Italy	98.6%	Gas, electricity and condensate production
Ingenieria Petrolera del Rio de la Plata S.r.l.	Argentina	100%	Dormant
Zenith Aran Oil Company Limited	British Virgin Islands	100%	Oil production

Aran Oil Operating Company Limited (2)	British Virgin Islands	80% owned subsidiary of Zenith Aran Oil Company Limited	Oil production
Altasol SA	Switzerland	100%	Oil trading
Zenith Energy (O&G) Ltd	United Kingdom	100%	Administrative services
Zena Drilling Limited (3)	Incorporated in UAE Place of business: Azerbaijan	100%	Oil and gas drilling

(1) Zenith Energy Ltd. has 100% control over Canoel Italia S.r.l. The Group granted 1.4% to the Director managing the Italian subsidiary in order to limit the risk of any liability to that entity. Therefore, no non-controlling interest arises from the consolidation of this subsidiary.

(2) The Directors of the Group have determined that the 20% interest of SOA in Aran Oil does not represent a non-controlling interest. This is a result of the structure of the REDPSA, whereby the financial entitlements of SOA are deemed to be legal obligations of the Group, and not a non-controlling interest in Aran Oil. The key factors considered in determining the appropriate treatment of SOA's 20% interest in Aran Oil included, but were not limited to:

- The allocation of voting rights and the ability of SOA to influence the decision-making process;
- Legal obligations of each party under the REDPSA; and
- Legal structure of Aran Oil as a vehicle for executing the terms of the REDPSA.

(3) On November 28, 2018, the Company finalized the transfer of the legal ownership of the oilfield services subsidiary company, Zena Drilling Limited ("**Zena**"), incorporated in the Ras Al Khaimah Free Trade Zone ("**RAKFTZ**"), in the United Arab Emirates ("**UAE**"). Zena was incorporated on July 29, 2017 by Mr. Andrea Cattaneo as probono trustee of the Company.

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

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

On January 30, 2020, the Company announced the establishment of its fully owned Norwegian subsidiary, Zenith Energy AS ("Zenith Norway").

As announced on December 9, 2019, Zenith intends to use Zenith Norway as a vehicle for intended participation in future licensing bids to be organized by the Norwegian Ministry of Petroleum and Energy, as well as to actively pursue the potential acquisition of working interests in mature energy production assets across Northern Europe.

To this end, the Company will mandate a leading Norwegian law firm to advise on the process of obtaining pre-qualification status for the acquisition of participating interests in Norwegian Continental Shelf ("NCS") energy production licenses.

The pre-qualification process entails a general assessment by the Norwegian authorities of Zenith's eligibility to become a licensee. Upon the successful achievement of pre-qualification status, in order to qualify as a licensee, Zenith will need to complete a transaction and obtain approval to become a licensee or operator for the specific production license from the Norwegian Ministry of Petroleum and Energy and the Ministry of Finance.

The following entities have not been consolidated within the Group's financial statements because they are considered to be immaterial to the Group:

Name	***Country of incorporation and place of business***	***Proportion of ownership interest***	***Principal activity***
Leonardo Energy Consulting S.r.l.	Genova, Italy	48%	Dormant

<u>**Property, plant and equipment**</u>

Development and production expenditures

Development and production ("**D&P**") assets include costs incurred in developing commercial reserves and bringing them into production. Items of property and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of D&P assets have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of D&P assets are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognized in profit or loss.

Subsequent costs

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

Depletion and depreciation

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, as determined by an independent reserve engineer, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Impairment
At the end of each reporting period, the Group reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into cash-generating units ("**CGUs**") for the purpose of impairment testing.
If any such indication of impairment exists, the Group makes an estimate of its recoverable amount. A CGUs recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.
Fair value less costs to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of D&P assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account.

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

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

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

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

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

Decommissioning provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the unwinding of discount and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the unwinding of discount is recognized as finance expenses. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

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

Inventory
Inventory consists of crude oil which is recorded at the lower of cost and net realizable value. The cost of producing crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the

normal course of business in bringing each product to its present location and condition. The cost of crude oil is the producing cost, including royalties. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any expected selling costs.

Financial instruments

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost using the effective interest method:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Impairment of financial assets

The Group applies the expected credit loss model to financial assets measured at amortized cost or at fair value through other comprehensive income. There are no financial assets other than trade receivables.

De-recognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities
All financial liabilities are measured subsequently at amortized cost using the effective interest method.
Compound financial instruments
Compound financial instruments include convertible notes which can be converted into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognized as the fair value of the liability without the conversion feature, which is calculated using inputs that fall within level 1 of the fair value hierarchy of IFRS 13. The equity component is recognized as the difference between the fair value of the convertible debt and the fair value of the liability component.
Transaction costs are proportionately allocated between the components. Subsequently, the liability component is measured at amortized cost using the effective interest method and accretes up to the principal balance at maturity.

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

De-recognition of financial liabilities

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished when the obligation specified in the contract is discharged or cancelled or expires.
Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost. For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

The Group's financial assets were classified as financial assets measured subsequently at amortized cost. The Group's financial liabilities were classified as financial liabilities measured subsequently at amortized cost. The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

Deferred consideration liability

Deferred consideration comprises capital commitments acquired as part of the Azerbaijan business combination transaction. These liabilities are measured at the net present value of contracted future cash flows. Details of the value and timing of future cash flows from the deferred consideration liability are included at note 18.

Share capital

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

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

Share-based payments

The cost of providing share-based payments to employees is charged to the statement of comprehensive income (or treated as a share issue cost) over the vesting period of the related share options or share allocations. The cost is based on the fair values of the options, which is determined using the Black Scholes method. The values of the charge are adjusted to reflect expected and actual level of vesting. Charges are not adjusted for market related conditions that are not achieved. Where equity instruments are granted to persons other than Directors or employees the consolidated statement of comprehensive income is charged with the fair value of the related goods or services received.

Earnings per share

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

Revenue from contracts with customers

The Group enters into contracts for the sale of oil and gas. Revenue is recognized when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards or ownership have been transferred to the customer and collection of the sales price is reasonably assured. The performance obligation is identified to be the delivery of oil and gas to the customer, and the transaction price is allocated to the amount of oil and gas delivered. These criteria for performance obligation are assessed to have occurred once the product has been delivered to the customer.

Foreign currency translation

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

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

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

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

Finance expense

Finance expense is comprised of interest on debt, accretion of the decommissioning obligation, accretion of convertible notes and other miscellaneous interest charges.

Taxation

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

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

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

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

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

4. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
The Group makes estimates and assumptions about the future. The relating accounting estimates will by definition, seldom equal to related achieved result. The estimates and judgements that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Going concern / minimum production required
The Directors have provided detail within note 2 to these financial statements which explain the Group's obligations and commitments under the REDPSA and the potential consequences of not meeting those obligations. The Directors have assessed that the Group will be able to meet the obligations within the required timeframe and have noted the challenges that they face in being able to do so. This is considered a critical accounting judgement due to the nature of uncertainty surrounding the factors which directly affect the Group's ability to meet the REDPSA obligations. as they are based upon using newly acquired assets.

Property, plant and equipment
Management reviews the Group's property, plant and equipment annually for impairment indicators.

The determination of recoverable amounts in any resulting impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to prices that are based on forward curves and long-term corporate assumptions thereafter, discount rates, that are risked to reflect conditions specific to individual assets, future costs, both capital and operating that are based on management's estimates having regard to past experience and the known characteristics of the individual assets, reserves and future production, which are discussed further on note 8. The carrying value of property, plant and equipment as at December 31, 2019 was CAD $1,080,311k (2018 – CAD $1,075,622k). It is also dependent on the Group being able to meet the CPR stated capital expenditure to ensure estimated cashflows are met and this is dependent on the availability of funding. It is also dependent on the Group being able to meet the production rate required by the REDPSA to ensure good title to the Azeri asset remains.

Proved and probable reserves and contingent resources
The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations. Contingent resources affect the valuation of exploration and exploration assets acquired in business combinations and the estimation of the recoverable value of those assets in impairment tests.

Proved and probable reserves and contingent resources are estimated using standard recognized evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated considering the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

The Group's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. The engineers issue a Competent Person's Report ("**CPR**") and the latest version was published on the Company's website (www.zenithenergy.ca) on June 28, 2019. 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 judgement and interpretation.

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

The amount, stated as a liability, reflect this part of production that has to be delivered to SOCAR, valued at the estimated production price of US$20 per barrel. The production price per barrel has been estimated on historical basis, based on the production costs per barrel of the former ownership of the concession (SOCAR). The carrying value of the compensatory oil provision as at December 31, 2019 is CAD $5,371k (2018 – CAD $5,616k).

Decommissioning costs
Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations.

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the Statement of Financial Position date. Provision is made for the estimated cost at the Statement of Financial Position date, using a discounted cash flow methodology and a risk-free rate of return. Details of the Group's decommissioning costs are disclosed in note 19. The carrying value of the decommissioning costs as at December 31, 2019 is CAD $8,807k (2018 – CAD $8,676k).

5. Administrative expenses
During the nine months ended December 31, 2019, the Group incurred CAD$ 4,134k (2018 - CAD$ 4,478k) of Administrative Expenses, of which CAD$ 591k (2018 - CAD$2,255k) of non-recurrent expenses which

relate to the cost of raising funds, negotiation for potential acquisition of producing assets and the share based payments costs, which is a non-cash item.

	Nine months ended December 31,	
	2019	**2018**
	CAD$'000	**CAD$'000**
Auditors remuneration - audit fees Group	**-**	141
Accounting and bookkeeping	**23**	30
Legal	**36**	171
Other professional fees	**463**	565
Office	**465**	343
Administrative expenses	**323**	146
Foreign exchange (gain)/loss	**297**	84
Other administrative expenses	**102**	302
Salaries	**1,587**	1,482
Travel	**248**	574
General and administrative expenses	**3,544**	**3,838**
Non-recurring expenses		
Listing costs (Norway and UK)	**343**	1,082
Negotiation costs for acquisitions	**135**	231
Transaction Costs	**2**	-
Share based payments	**111**	942
Total non-recurring expenses	**591**	**2,255**
Total general and administrative expenses	**4,135**	**6,093**

6. Finance income/(expense)

	Nine months ended December 31,	
	2019	**2018**
	CAD $'000	**CAD $'000**
Debt reduction on settlement of loan	643	-
Interest reduction on settlement of loan	733	-
Effective interest on financial liabilities held at amortised cost	(632)	(610)
Interest expense	(82)	-
Net finance income/(expense)	**662**	**(610)**

7. Taxation

	Nine months ended December 31,	
	2019	**2018**
	CAD $'000	**CAD $'000**
Current tax	**-**	1
Deferred tax	**-**	**-**
Total tax charge for the period	**-**	**1**

The tax (credit) / charge for the nine months ended December 31, 2019 comprised CAD $Nil (2018 – CAD$ 934) of current tax expense and CAD $Nil deferred tax reduction (2018 – CAD $Nil deferred tax reduction).

As at December 31, 2019, the Group had accumulated non-capital losses in Canada totaling CAD$638,484k (2018 - CAD $632,171k) which expire in varying amounts between 2022 and 2039 and CAD $795k (2018 – CAD $400k) of non-capital losses with no expiry date.

8. Property, plant and equipment

	D&P Assets CAD $'000
Carrying amount at April 1, 2018	**1,077,445**
Additions	391
Disposals	(216)
Depletion and depreciation	(1,237)
Compensatory oil delivered	(270)
Foreign exchange differences	(588)
Carrying amount at December 31, 2018	**1,075,525**

Carrying amount at April 1, 2019	**1,079,639**
Additions	2,916
Disposals	-
Depletion and depreciation	(1,356)
Compensatory oil delivered	(159)
Foreign exchange differences	364
Carrying amount at December 31, 2019	**1,081,404**

Property, plant and equipment have attached capital commitments represented by deferred consideration payable. The details of these capital commitments are included within the 'Capital costs' section of note 18.

Impairment test for property, plant and equipment

As at December 31, 2019 and 2018, the Group identified certain business risks related to its Italian and Azerbaijan 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 Group performed impairment tests at December 31, 2019 and 2018 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 Italian CGU was based on 15% (2018 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at March 31, 2019 and 2018. The estimated recoverable amount of the Italian CGU at March 31, 2019 was higher than its carrying amount, therefore, no impairment was recognized in the nine months ended December 31, 2019 (2018 – no impairment) in the consolidated statement of comprehensive income.

The estimated fair value less costs to sell of the Azerbaijan CGU was based on 10% (2018 – 10%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at March 31, 2018. The estimated recoverable amount of the Azerbaijan CGU as at March 31, 2019, was higher than the carrying amount, therefore, no impairment was recognized in the nine months ended December 31, 2019 (2018 - CAD$ nil) in the consolidated statement of comprehensive income. The headroom between the calculated value in use and the carrying amount is sensitive to changes in the discount rate used. A 0.3% increase in the discount rate would eliminate the headroom and therefore any increase in the discount rate above 0.3% would result in an impairment.

A decrease of more than 2.5% in the estimated fair value of the reserves in the Azerbaijan CGU would lead to the recognition on an impairment, whereas in the Italian CGU the decrease should be more than 23% for an impairment to be recognized. In addition, movements in other inputs to the calculation, such as the timing of future cashflows and commodity prices, also have a significant impact on the value of the underlying assets.

9. Non-current financial assets held at amortized cost

Upon the change of ownership of the assets acquired in Italy in the year 2016, the Group obtained an insurance policy for its Italian oil and gas operations. The policy has a five-year term for which the Group paid the total premium of EUR 567k (CAD $868k), of which CAD $nil (2018 – CAD $nil) has been recognized as an expense. The outstanding balance of CAD $408k (2018 - CAD $416k) is included in long-term assets. During the year 2016 the Group received the news that the insurance company was in default. The Directors decided not to expense the monthly installment on the prepaid insurance, waiting for the reimbursement promised by the State of Romania, where the insurance company was based.

10. Inventory

As at December 31, 2019, inventory consists of CAD $122k (2018 – CAD $6k) of crude oil that has been produced but not yet sold, and CAD $151k of materials (2018 – CAD $170k). The amount of inventory recognized in the statement of comprehensive income is CAD $123k (2018 - CAD $4k).

	2019		**2018**	
	Barrels	**CAD $'000**	**Barrels**	**CAD $'000**
Azerbaijan	3,159	122	140	6
Azerbaijan – materials	-	151	-	170
Italy	-	6	-	5
	3,159	**279**	140	**181**

11. Trade and other receivables

	2019	**2018**
	CAD $'000	**CAD $'000**
Trade receivables	3,595	2,845
Bonds in treasury	1,720	-
Other receivables	1,425	121
Total trade and other receivables	6,740	2,966

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. The Group's customer base is of a similar bracket and share the same characteristics, as such these have been treated as one population. The Group's customers are all State customers, therefore, the lifetime expected losses are considered to be CAD$ nil.

12. Change in working capital

	Nine months ended December 31, 2019 CAD $'000	2018 CAD $'000
Trade and other receivables	(2,054)	(1,335)
Inventory	(98)	(115)
Prepaid expenses	(506)	11
Prepaid property and equipment insurance	(5,879)	10
Trade and other payables	894	(6,525)
Total change in working capital	**(7,643)**	**(7,954)**

13. Share Capital

Zenith is authorized to issue an unlimited number of Common Shares, of which 191,116,45 were issued at no par value and fully paid during the nine months ended December 31, 2019 (2018 – 81,161,032). All Common Shares have the right to vote and the right to receive dividends. Zenith is authorized to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of these Financial Statements. The Directors of the Group may by resolution fix the rights, privileges, restrictions and conditions of the preferred shares of each series.

Following the issue of the new Ordinary Shares, the Group had 451,543,509 common shares in issue and admitted to trading on the Toronto Stock Exchange Venture Exchange and Merkur Market of the Oslo Børs, as of December 31, 2019, of which, as of the same date, Zenith had 277,403,856 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange.

Issued Description	**Number of common shares**	**Amount CAD $'000**
Balance – April 1, 2018	**158,798,698**	**22,792**
Settlement of debt (i)	1,123,068	185
Non-brokered unit private placement (ii)	54,172,451	3,694
Finder's fee	-	- 187
Balance – June 30, 2018	**214,094,217**	**26,484**
Finder's fee	-	- 5
Balance – September 30, 2018	**214,094,217**	**26,479**
Settlement of debt (iii)	2,225,941	186
Non-brokered unit private placement (iv)	20,782,429	1,141
Non-brokered unit private placement (v)	2,857,143	157
Finder's fee	-	- 107
Balance – December 31, 2018	**239,959,730**	**27,856**
Non-brokered unit private placement (vi)	10,364,640	517
Non-brokered unit private placement (vi)	10,102,694	519
Finder's fee	-	- 26
Balance – 31 March 2019	**260,427,064**	**28,866**
Non-brokered unit private placement (vii)	20,000,000	1,000
Finder's fee	-	- 40
Non-brokered unit private placement (vii)	17,647,059	794
Finder's fee	-	- 63
Non-brokered unit private placement (viii)	14,334,602	702

Finder's fee	-	- 42
Balance – 30 June 2019	**312,408,725**	**31,217**
Exercise of stock option (ix)	622,407	75
Exercise of stock option (x)	688,797	83
Non-brokered unit private placement (xi)	47,812,500	1,913
Finder's fee	-	- 34
Settlement of debts (xii)	6,589,678	303
Balance – 30 September 2019	**368,122,107**	**33,557**
Settlement of debts (xiii)	11,421,402	445
Non-brokered unit private placement (xiv)	37,000,000	1,857
Finder's fee		- 97
Non-brokered unit private placement (xv)	35,000,000	1,124
Balance – 31 December 2019	**451,543,509**	**36,886**

i) On May 4, 2018, Mr. Cattaneo swapped part of his salary for the 2018 financial year in exchange for common shares in Zenith. As a result, the Group issued Mr. Andrea Cattaneo 1,123,068 common shares in the capital of the Group at an average price of CAD$0.165 (approximately £0.094) for the period from April 1, 2017, until March 31, 2018, for an amount of CAD$185k. The amount of the Salary Sacrifice Shares was calculated based on Mr. Cattaneo' salary as at April 1, 2017.

ii) On June 21, 2018, the Company raised gross proceeds totaling, in aggregate, £2,167k (CAD$3,694k). As a result of the Placing, Subscription the Group issued a total of 54,172,451 new common shares, (the "**New Common Shares**").

The Company also paid finder's fees for CAD$192k, of which CAD$5k were recognized in the Q2 of the FY 2019, and issued 1,280,000 warrants, that could be exercised at a price of CAD$0.07 for a duration of three years.

iii) On October 2, 2018, Mr. Andrea Cattaneo swapped his salary for the first two quarters of the 2019 financial year in exchange for common shares in the capital of Zenith ("**Salary Sacrifice Shares**"). As a result, on October 1, 2018, the Company issued Mr. Cattaneo 2,225,941 Salary Sacrifice Shares at an average price of CAD$0.108 for the period from April 1, 2018, to June 30, 2018, and at an average price of CAD$0.069 for the period from July 1, 2018, to September 30, 2018. The amount of Salary Sacrifice Shares was calculated on the basis of Mr. Cattaneo' salary as at October 1, 2018.

iv) On November 7, 2018, the Group received approval for admission to trading of its entire common share capital on the Merkur Market of the Oslo Børs (the "**Merkur Market**"). In order to satisfy the Merkur Market admission requirements the Company completed a private placement with Norwegian investors (the "**Private Placement**"). The Private Placement successfully raised gross proceeds of NOK 7,274k (approximately £668k or CAD$1,142k) through the placement of 20,782,429 common shares of no-par value (the "**Placement Shares**") at a subscription price of NOK 0.35 per share (approximately £0.032 or CAD$0.055 per Placement Share).

v) On November 12, 2018, the Group completed a private placement on the Merkur Market of the Oslo Børs with Norwegian investors raising gross proceeds of NOK 1 million (approximately £92k or CAD$157k) through the placement of 2,857,143 common shares of no par value (the "**Placement Shares**") at a subscription price of NOK0.35 per Placement Share (approximately £0.032 or CAD$0.055).

vi) On February 8, 2019 the Group announced the completion of 2 offerings, one in Canada, (the "**Canadian Financing**"), and the other in the United Kingdom, (the "**UK Financing**"), with a consortium of private and institutional investors to raise a total of £607k (approximately CAD$1,036k). The Company paid related finder's fee for CAD$26k.

Canadian Financing

Zenith issued a total of 10,364,640 common shares of no-par value in the capital of the Group ("**Common Shares**") at a price of CAD$0.05 in connection with the Canadian Financing to raise gross proceeds of CAD$519k (approximately £304k). Each subscription for a Canadian Financing Common Share has attached a share purchase warrant with a duration of twelve months and an exercise price of CAD$0.10.

UK Financing

Zenith issued a total of 10,102,694 Common Shares of no-par value in the capital of the Company at a price of £0.03 in connection with the UK Financing (the "**UK Financing Common Shares**") to raise gross proceeds of £303k (approximately CAD$517k).

vii) On April 2, 2019, the Group announced that it had completed two offerings with a consortium of private and institutional investors and raised an aggregate total amount of approximately £1,020k (approximately CAD$1,790k).

Canadian Financing

Zenith issued a total of 20,000,000 common shares of no-par value in the capital of the Group ("**Common Shares**") at a price of CAD$0.05 in connection with the Canadian Financing to raise gross proceeds of CAD$1,000k (approximately £570k). The Company also paid related finder's fees for CAD$40k.

UK Financing

Zenith issued a total of 17,647,059 Common Shares of no-par value in the capital of the Group at a price of £0.0255 (approximately CAD$0.045) in connection with the UK Financing and raised gross proceeds of £450k (approximately CAD$790k). The Company also paid related finder's fees for CAD$63k.

viii) On May 3, 2019 the Group announced that it had completed a placing of new common shares of no-par value in the capital of the Group ("**Common Shares**") in the United Kingdom (the "**Financing**").

Zenith issued a total of 14,334,602 Common Shares at a price of £0.028 (approximately CAD$0.049) in connection with the Financing to raise gross proceeds of £401k (approximately CAD$703k). The Company also paid related finder's fees for CAD$42k.

ix) On July 3, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo exercised stock options to acquire 622,407 common shares of no-par value in the capital of the Company, at an exercise price of CAD$0.12 per New Share.

x) On July 4, 2019 the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options to acquire 688,797 common shares of no-par value in the capital of the Company, at an exercise price of CAD$0.12 per New Share.

xi) On August 2, 2019, the Company completed a placing in Canada issuing a total of 47,812,500 Common Shares, at a price of CAD$0.04 per unit, consisting of one common share of no par value in the capital of the Company ("**Common Shares**") and one full common share purchase warrant ("**Warrants**"), exercisable within 12 months at an exercise price of CAD$0.10, raising gross proceeds of CAD$1,912,500 (approximately £1,195,000 or NOK 12,856,000). The Company paid finder's fees for

CAD$34k.

xii) On September 17, 2019 the Company has agreed to issue 6,589,678 common shares at an average price of CAD$0.05 per common share, to settle debts of CAD$303k owed by the Company.

xiii) On October 24, 2019, the Company announced that It had received three Conversion Notices ("**Conversion**") from the consortium of lenders (the "Lenders") for the US$1,500,000 Convertible Loan Facility ("Convertible Loan") announced on September 5, 2018. A total of 11,421,402 Conversion Shares, equivalent to a total amount of US$340,000, were issued.

xiv) On November 1, 2019, the Company announced the fully closing of the private placing on the Merkur Market of the Oslo Børs. The aggregate number of common shares issued as part of the private placement was 37,000,000 and the private placement was completed at a subscription price of NOK 0,35 per share (3 Pence or CAD cents 5.02). The Company also paid finder's fee for CAD$97k.

xv) On December 17, 2019, the Company announced a Private Placement on the Merkur Market of the Oslo Stock Exchange. The Company has successfully raised gross proceeds of NOK 7,700,000 (approximately £638,000 or CAD$1,123,430) to subscribe for 35,000,000 common shares of no-par value in the capital of the Company ("New Common Shares") at a price of NOK 0.22 per New Common Share (approximately £0.02 or CAD$0.03

14. Warrants and options

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD$'000
Balance – April 1, 2018	**4,100,000**	**27,027,644**	**0.19**	**875**
Options issued	10,500,000	-	0.12	927
Warrants issued	-	1,280,000	0.07	43
Warrants expired	-	(1,807,500)	0.25	(192)
Warrants expired	-	(8,628,813)	0.15	-
Balance – June 30, 2018	**14,600,000**	**17,871,331**	**0.19**	**1,653**
Warrants issued	-	6,977,988	0.05	59
Warrants expired	-	(1,350,000)	0.25	(46)
Options expired	(1,000,000)	-	0.15	(119)
Options expired	(1,500,000)	-	0.17	(193)
Options expired	(1,000,000)	-	0.12	(88)
Warrants expired	-	(4,214,125)	0.25	(107)
Warrants expired	-	(732,920)	0.20	-
Balance – December 31, 2018	**11,100,000**	**18,552,274**	**0.15**	**1,159**
Warrants issued	-	11,358,390	0.10	65
Warrants expired	-	(10,114,286)	0.18	(77)
Balance – March 31, 2019	**11,100,000**	**19,796,378**	**0.12**	**1,147**
Balance – June 30, 2019	**11,100,000**	**19,796,378**	**0.12**	**1,147**
Warrants issued	-	47,812,500	0.10	111
Options exercised	(1,311,204)		0.12	(116)
Balance – September 30, 2019	**9,788,796**	**67,608,878**	**0.12**	**1,142**

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD$'000
Options expired	(703,571)	-	0.12	(62)
Balance – December 31, 2019	**9,085,225**	**67,608,878**	**0.12**	**1,080**

Options

Type	Grant Date	Number of options	Exercise price per unit CAD$	Expiry Date
Stock options	November 2016	**1,100,000**	0.10	November 2021
Stock options	November 2017	**500,000**	0.18	November 2022
Stock options	April 2018	**9,500,000**	0.18	April 2023
	TOTAL OPTIONS	**11,100,000**		
Stock options	November 2016	**1,100,000**	0.10	November 2021
Stock options	November 2017	**500,000**	0.18	November 2022
Stock options	April 2018	**7,485,225**	0.12	April 2023
	TOTAL OPTIONS	**9,085,225**		

Options

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

As at December 31, 2019, the Group had 9,085,225 stock options outstanding (relating to 9,085,225 shares) and exercisable at a weighted average exercise price shown on the table above per share with a weighted average life remaining of 2.98 years.

The fair value of the options was calculated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	100%
Expected life	5 years
Dividends	Nil

Granting of options

On April 3, 2018, the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "Options"), in accordance with the Company's Stock Option Plan. The exercise price of the Options was equivalent to the Company's TSXV closing price of March 26, 2018, being CAD$0.12 (approximately £0.067). The Options are fully vested and have an expiry date of five years from the date of granting.

Exercise of options

- On July 3, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options to acquire 622,407 common shares of no-par value in the capital of the Company, at an exercise price of CAD$0.12 per New Share.

- On July 4, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options and acquire 688,797 common shares of no-par value in the capital of the Company, at an exercise price of CAD$0.12 per New Share.

Expiry of options

A director, who had been granted share options, left the Group in previous quarters and, as stipulated in the stock option agreements, these options expired upon the elapsing of three months from the date of leaving. During the quarter ending December 31, 2019, the Group updated their holdings for the 703,571 (2018 - 3,500,000) expired stock options.

Warrants

Type	Grant Date	Number of Warrants	Exercise price CAD$	Expiry Date
Warrants	January-17	**1,114,286**	0.11	January-19
Warrants	January-17	**9,000,000**	0.24	January-19
Warrants	January-18	**180,000**	0.16	January-20
Warrants	June-18	**1,280,000**	0.07	June-21
Warrants	Sept-18	**6,977,988**	0.05	February-20
	TOTAL WARRANTS	**18,552,274**		
Warrants	January-18	**180,000**	0.16	January-20
Warrants	April-18	**93,750**	0.40	May-21
Warrants	June-18	**1,280,000**	0.07	June-21
Warrants	Septeber-18	**6,977,988**	0.10	February-20
Warrants	February-19	**10,364,640**	0.10	February-20
Warrants	February 19	**900,000**	0.10	February 20
Warrants	August 19	**47,812,500**	0.10	August 20
	TOTAL WARRANTS	**67,608,878**		

As at December 31, 2019, the Group had 67,608,878 warrants outstanding (relating to 67,608,878 shares) and exercisable at a weighted average exercise price of CAD$0.11 per share with a weighted average life remaining of 0.7 year.

The fair value of the warrants was calculated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	75-100%
Expected life	2 years
Dividends	Nil

15. Trade and other payables

	2019 CAD $'000	2018 CAD $'000
Trade payables	9,376	7,642
Other payables	722	2,546
Accrued interest	-	804
Total trade and other payables	**10,098**	**10,992**

16. Loans

	Nine months ended December 31	
	2019	**2018**
	CAD$'000	**CAD$'000**
Loan payable – current	2,200	4,251
Loan payable – non-current	1,055	981
Total	**3,255**	**5,232**

The movement on the loans was as follows:

	Nine months ended December 31	
	2019	**2018**
Loans – current	**CAD $'000**	**CAD $'000**
As at 1 April	3,776	237
Loan receipt	-	457
Transfer from non-current	2,679	3,929
Repayments	(3,293)	(430)
Debt reduction on settlement of loan	(643)	-
Interest	7	-
Foreign exchange	(326)	58
As at December 31	**2,200**	**4,251**

	2019	**2018**
Loans – non current	**CAD $'000**	**CAD $'000**
As at 1 April	3,417	4,949
Loan receipt	366	-
Transfer to current	(2,679)	(3,929)
Foreign exchange	(49)	(39)
As at December 31	**1,055**	**981**

a) USD loan payable

On October 1, 2019, 2019, the Company announced that, on September 30, 2019, it had successfully agreed to settle the USD loan for a total amount of US$1,000k, representing a reduction of US$1,081k.

The Chief Executive Officer and President of the Group had provided a personal guarantee to the lender in respect of the repayment of the USD Loan by the Group and the final payment of approximately USD$1,485k.

The full amount of the principal, and related accrued interest, of the Loan Facility was represented and accounted as a liability in the audited Annual Financial Report of the Company as of March 31, 2019, for a total amount of US$2,081k.

On October 24, 2019, the Company announced that it had repaid the first tranche of the settlement of this liability.

As at December 31, 2019, CAD$740k (December 31, 2018 – CAD$2,025k classified as non-current liability) of principal is classified as a current liability and CAD$nil (December 31, 2018 – CAD$684k) of accrued interest is included in trades and other payables.

b) Euro bank debt

On August 6, 2015, the Group obtained a €220k loan (CAD$349k) from the GBM Banca of Rome. The loan is unsecured, bears fixed interest at 7% per annum and is repayable in 60 monthly payments of principal and interest until August 6, 2020.

As at December 31, 2019 the principal balance of the loan was €35k (CAD$51k) and classified as a current liability.

c) USD $320,000 General line of credit agreement

On April 5, 2017, the Group's wholly owned subsidiary, Zenith Aran Oil Company Limited, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("**Rabitabank**") up to an amount of US$320k (CAD$436k), for industrial and production purposes. The loan was, as at April 6, 2017, fully drawn down. Rabitabank can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% production levels as they were at the date of first drawdown, or if the REDPSA is terminated.

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

On July 6, 2017, the terms of the repayment of the US$320k (CAD$436k) credit agreement were amended and the first repayment of the principal of US$80k was postponed to the end of July.

On July 31, 2017 US$20k (CAD$21k) was repaid and the balance of US$60k (CAD$63k) was agreed to be repaid on September 1, 2017. On July 31, 2018, US$40k (CAD$52k) was repaid. A subsequent credit committee decision taken in September 2017 amended the payment terms of the loan. Zenith Aran Oil Company Limited will pay interest on a monthly basis and the principal total amount of US$40k has been paid on September 30, 2018. The balance of the principal amount will be repaid at a new maturity date of April 6, 2019. Based on credit committee decision taken on April 18, 2019 the principal amount of US$280K was rolled over for one year.

The loan is now guaranteed by the guarantee of the Group CEO, Mr. Andrea Cattaneo.

As of December 31, 2019, the outstanding principal amount was US$280K (CAD$368k) (December 31, 2018 - US$280k (CAD$354k)) and it was classified as a current liability.

d) USD $200,000 General line of credit agreement

On April 12, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to US$200k (CAD$272k). This Credit Agreement bears interest at a rate of 10% per annum. The loan was granted for one-year period and the principal amount of the loan was payable at the end of the period.

The amount of interest is repayable monthly. In March 2018, the repayment of the principal amount (US$200k) was extended for 15 months until July 12, 2019 and then the credit committee made the decision to roll-over the loan for another year with maturity date on July 12, 2020. The interest is payable on a monthly basis and the principal amount will be paid as a whole on the maturity date.

The loan is now guaranteed by the Group Chief Executive Officer, Mr. Andrea Cattaneo.

As of December 31, 2019, the outstanding principal amount was US$200K (CAD$263k) (December 31, 2018 - US$120k (CAD$163k)) and it was classified as a current liability.

e) Non-Convertible loan USD 1,500,000

On September 5, 2018, the Company entered into a US$1,500,000 unsecured convertible loan facility with a term of 18 months starting from August 30, 2018. Zenith shall pay interest on the outstanding amount of the convertible loans at the rate of 0% per annum. The Facility includes an initial immediate advance of US$1,300,000 and a further advance of US$200,000, to be provided at a later time and only at the discretion of the Lenders. Under the terms of the Facility the Company issued the lenders 6,977,988 share purchase warrants to subscribe for the equivalent number of common shares of no par value in the share capital of the Company at a price of £0.0505 per Common Share on subscription at any time from December 30, 2018 to February 28, 2020 subject to the articles of the Company and the terms and conditions of the convertible loans. On January 7, 2019, the Company successful renegotiated the terms of this unsecured Convertible Loan Facility, to enable monthly repayments in instalments in lieu of conversion.

On November 1, 2019, the Company announced that it had agreed to supplement an existing convertible loan agreement (the "**Loan Agreement**") it had with a consortium of lenders (the "**Lenders**") by increasing the maximum amount that may be loaned by the Lenders to the Company under the Loan Agreement by an additional USD$1,000,000, from USD$1,500,000 to USD$2,5000,000. The conversion terms under the Loan Agreement are the same provided in the original loan announced on September 5, 2018, and successfully renegotiated on March 11, 2019. The Loan Agreement provides for an initial immediate advance of USD$500,000 and a further advance of USD$500,000, to be provided at a later time.

As of December 31, 2019, the total outstanding liability in relation to the non-convertible loan provided by the Lenders stands at USD$850k (CAD$1,110k).

f) Convertible loan GBP 1,000,000

On January 7, 2019, the Company entered into a new unsecured convertible loan facility for an aggregate total amount of up to £1 million with a consortium of lenders. The loan facility has a term of 24 months and the Company shall pay interest on the outstanding amount of the loan facility at the rate of 8% per annum. The loan facility is repayable on January 15, 2021. With certain limitations, the Convertible Loan Notes ("**CLNs**") will be convertible into Common Shares of the Company at any time after the expiry of a 120 day lock up period from the date of issue of the CLNs, January 15, 2019, as required under applicable Canadian securities laws.

17. Non-convertible bond and notes

Non-convertible bond and notes	December 31, 2019 CAD $'000	December 31, 2018 CAD $'000
Current	-	381
Non-current	4,759	-
Total	**4,759**	**381**

Non-convertible bond and notes	CAD $'000
Balance – April 1, 2018	**407**
Foreign currency translation	(26)
Balance – December 31, 2018	**381**

Balance – April 1, 2019	**4,958**
Interest	71
Repayment of bonds	(270)
Balance – December 31, 2019	**4,759**

(a) EMTN

During the year the Group, as announced in September 2018 and January 2019, issued European Medium-Term Notes to finance its development activities in Azerbaijan for a total amount of CAD$4,759k, with the duration of 3 years. The maturity date of the Notes is December 20, 2021, and they carry an interest charge of 8% per annum, payable semiannually on December 20, 2019, and then every six months thereafter.

At the nine months ended December 31, 2019, CAD$ nil is classified as a current liability and CAD$4,759 is classified as long-term.

18. Deferred consideration payable

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

Compensatory oil

The Company has an obligation, under the terms of the REDPSA, to:

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

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

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

Capital Costs

Total capital expenditures of USD$749m (USD$599m net to the Company) have been estimated to redevelop the oil fields in the block. During 2019 and 2020, it is estimated that US$ 3.5m will be spent upgrading the gathering system and central facilities in Azerbaijan to improve safety, efficiency and handle higher production rates.

From 2020 through 2024, 3D seismic programmes are expected to be performed in order to fully delineate the various pools and target formations to optimize the selection of drilling locations.

Development drilling will commence in 2019 and continue to 2035. It has been estimated that each well in the proved case will cost USD$4.3m. This cost will include the direct cost of materials, fuel, salaries, etc. to drill the well as well as an allocation for the purchase of one drilling rig, well completion and tie in. Each well in the proved plus probable case is expected to cost USD$5m. In addition to the costs anticipated for the proved wells, wells in proved plus probable category have an additional allocation of the periodic leasing or contracting of additional drilling rigs and expansion and modernization of the field facilities.

In all, 147 wells are expected to be drilled, 58 of these are anticipated to be horizontal wells. Most horizontal wells will have two legs of about 1,600 m each. For the purpose of estimating costs, each leg is considered to be a well with a cost of USD$5m.

Under the terms of the REDPSA, the Company and SOCAR shall, within 12 months of the effective date, agree to a mechanism of making contributions to an abandonment fund which shall not exceed 15% of all capital costs. Contributions to the abandonment fund can be recovered as operating costs.

DEFERRED CONSIDERATION PAYABLE

	December 31, 2019 CAD$'000	December 31, 2018 CAD$'000
Compensatory Oil		
Current portion	159	431
Non-Current portion	5,272	5,074
Capital costs		
Current portion	698	324
Non-Current portion	477,567	477,879
As of 30 September	**483,696**	**483,708**
Deferred condideration payable current	857	755
Deferred consideration payable non-current	482,839	482,953
Total	**483,696**	**483,708**

The deferred consideration liability has been measured at the present value of contracted future cash flows. The value and timing of contracted future cash flows has been included in note 22 (b).

19. Decommissioning provision

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

	2019 CAD $'000	2018 CAD $'000
Balance – beginning of period	**9,089**	**9,140**
Accretion	(31)	-
Foreign currency translation	(254)	(171)
Balance – end of period	**8,804**	**8,969**

The provision has been made by estimating the decommissioning cost at current prices using existing technology. The following significant weighted average assumptions were used to estimate the decommissioning obligation:

	2019	**2018**
Undiscounted cash flows – uninflated	CAD $8 million	CAD $8 million
Undiscounted cash flows - inflated	CAD $8 million	CAD $8 million
Risk free rate	3.4%	3.4%
Inflation rate	1.4%	1.4%
Expected timing of cash flows	13.5 years	14.5 years

The timings of the cash flows depend on the capital expenditure incurred and the development of assets in each concession. Each concession has a license for a set number of years; however, the licenses could be extended for longer periods if the operator incurs capital expenditure and develops the area. The application process starts after a license is not extended or when the reserves of a particular concession have been fully extracted.

20. Earnings per share

	December 31, 2019, CADS'000		**December 31, 2018, CAD$'000**
Net loss	(1,438)		(6,304)
Basic weighted average number of shares	319,440		202,050
Potential dilutive effect on shares issuable under warrants	76,694		29,652
Potential diluted weighted average number of shares	396,134		231,702
Net (loss)/profit per share – basic (1)$	(0.01)	$	(0.03)
Net earnings per share – diluted	(0.01)		(0.03)

(1) The Group did not have any in-the-money convertible notes, warrants and stock options during the nine months ended December 31, 2019 and 2018. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

The basic and diluted loss per share for 2019 are the same as there are no dilutive effects on earnings as the effect of the exercise of share options would be to decrease the earnings per share. Details of share warrants and options that could potentially dilute earnings per share in future years are set out in Note 14.

21. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. The related party transactions during the nine months ended December 30, 2019 and 2018 not disclosed elsewhere in these consolidated financial statements are as follows:

a) On April 12, 2019, Mr. Cattaneo acquired a total of 450,000 common shares of no-par value in the capital of the Company, at a total average price of £0.0305 per Common Share.

b) On April 25, 2019, Mr. Cattaneo acquired a total of 593,289 common shares of no-par value in the capital of the Company, at an average price of NOK 0.37 (approximately £0.033) per Common Share on April 18, 2019 on the Oslo Børs.

c) On May 3, 2019, Mr. Cattaneo acquired a total of 650,000 common shares of no-par value in the capital of the Company, at an average price of GBP 0.03055 (approximately CAD$0.05) per Common Share.

d) On May 14, 2019, Mr. Cattaneo acquired a total of 1,005,000 common shares of no-par value in the capital of the Company, at a total average price of £0.030 per Common Share (approximately CAD$0.054).

e) On May 15, 2019, Mr. Andrea Cattaneo, granted a call option on May 13, 2019 over 1,000,000 common shares of no-par value in the capital of the Company, owned by himself, at an exercise price of CAD$0.10 per Common Share (approximately £0.057) that can be exercised between July 1, 2019 and April 4, 2020.

f) On May 29, 2019, Mr. Cattaneo acquired a total of 200,000 common shares of no-par value in the capital of the Company, at an average price of £0.02925 per Common Share, and transferred 1,500,000 common shares to a family member.

g) On August 6, 2019, the Chief Executive Officer & President of The Company, Mr. Andrea Cattaneo, had advised the Company that he purchased 700,000 common shares of no par value in the capital of the Company at an average price of GBP 0.02471 per Common Share on the London Stock Exchange, and 7,187,632 common shares of no par value in the capital of the Company at an average price of CAD$0.04 per Common Share on the TSX, he subscribed 7,500,000 new common shares in the capital of Zenith at a price of CAD 0.04 per common share during the Company's last Canadian Placing, he transferred 1,000,000 Common Shares on August 0, 2019 to a family member (who is not a PCA) and he sold a total of 7,187,632 common shares of no par value in the capital of the Company at a price of £0.025 per Common Share.

h) On August 9, 2019, the Chief Executive Officer & President of the Company , Mr. Andrea Cattaneo, had advised that he purchased a total of 475,000 common shares of no par value in the capital of the Company at an average price of £0.0255 per Common Share on the London Stock Exchange, he purchased 325,000 Common Shares at an average price of £0.0249 per Common Share, he purchased 150,000 Common Shares at a price of £0.0267 per Common Share, he purchased 8,512,368 Common Shares at an average price of CAD$0.04 per Common Share on the TSX Venture Exchange and he sold a total of 8,512,368 Common Shares at an average price of £0.0250 per Common Share on the London Stock Exchange.

i) On December 17, 2019, the Company announced announce a Private Placement ("Private Placement") on the Merkur Market of the Oslo Stock Exchange. Mr. Andrea Cattaneo, Chief Executive Officer & President of Zenith, advised the Company that, in relation to the aforementioned Private Placement, he subscribed 8,500,000 common shares of no-par value ("Common Shares") in the capital of the Company.

j) On December 30, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, purchased a total of 325,000 common shares of no-par value in the capital of the Company at an average price of £0.0184 (approximately CAD$0.031) per Common Share on the London Stock Exchange, on December 27, 2019.

k) As of December 31, 2019, Following the aforementioned dealings, Mr. Cattaneo was directly beneficially interested in a total of 35,659,115 Common Shares in the capital of the Company, representing 7.90 per cent of the total issued and outstanding common share capital of the Company admitted to trading on the TSX Venture Exchange and Merkur Market of the Oslo Børs, at that date.

l) Mr. Cattaneo is also indirectly interested in a total of 480,000 Common Shares, today representing 0.11 per cent of the Company's issued and outstanding common share capital admitted to trading on the TSX Venture Exchange and Merkur Market of the Oslo Børs, at that date.

j) General Transactions Inc., represented by its Chief Executive Officer and Chairman Mr. Sergey

Borovskiy, a Non-Executive Director of the Company, granted Zenith a loan of CAD$ Nil (2018 - CAD$127,878). The maturity date of the loan, plus accrued interest at the yearly rate of 15%, is March 31, 2020. The balance outstanding at December 31, 2019 is CAD$127,878 (2018 - CAD$127,878).

k) Mr. Erik Larre, a Non-Executive Director of the Company, granted Zenith a loan of CAD$ Nil (2018 - Euro 20,000 (CAD$31,598)). The principal is repayable upon request and accrued no interest. The balance outstanding at December 31, 2019 is CAD$31,598 (2018 - CAD$31,598).

22. Financial risk management and financial instruments

	December 31, 2019	December 31, 2018
Financial assets	**CAD $'000**	**CAD $'000**
Financial assets held at amortized cost	5,020	2,966
Cash and cash equivalents	1,672	4,133
Total financial assets	**6,692**	**7,099**

	December 31, 2019	December 31, 2018
Financial liabilities at amortized cost	**CAD $'000**	**CAD $'000**
Trade and other payables	10,098	10,992
Loans	3,255	6,410
Non-convertible bond and notes	4,759	351
Deferred consideration	483,696	483,708
Total financial liabilities	**501,808**	**501,461**

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

Zenith's policy is to maintain an appropriate financial position to sustain future development of the business. There were no changes to the Group's capital management approach during the nine months ended December 30, 2019.

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

Zenith's principal financial instruments are cash and deposits, and also trade and other receivables. These instruments are used for meeting the Group's requirement for operations.

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

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Group's maximum credit risk exposure is limited to the carrying amount of cash of CAD$ 1,672k (2018 – CAD$4,133k) and trade and other receivables of CAD$5,020k

(2018 – CAD$2,966k).

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

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

	December 31, 2019 CAD $'000	December 31, 2018 CAD $'000
Oil and natural gas sales	2,569	1,440
Goods and services	-	271
Other	2,451	201
	5,020	**1,912**

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

The Group considers its receivables to be aged as follows:

	December 31, 2019 CAD $'000	December 31, 2018 CAD $'000
Current	5,020	1,912
90 + days	-	-
	5,020	1,912

b) Liquidity risk

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

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

As of December 31, 2019, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying Amount CAD $'000	Contractual cash flow CAD $'000	Due on or before December 31, 2020 CAD $'000	Due on or before December 31, 2021 CAD $'000	Due after December 31, 2021 CAD $'000
Trade and other payables	10,098	10,098	10,098	-	-
Loans	3,255	3,255	2,200	1,055	-
Non-convertible bond	4,759	5,139	380	3.376	-
Deferred consideration	483,696	1,143,382	45,421	65,661	1,032,300
	501,808	1,161,874	58,099	70,092	1,032,355

c) *Foreign 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**	
	2019	**2018**	**2019**	**2018**
US dollars	1.3239	1.3630	1.3434	1.2552
Euro	1.4448	1.5598	1.5023	1.5133
Swiss Franc	1.3457	1.3849	1.3653	1.2858
British Pound	1.6993	1.7357	1.7175	1.6544

The following represents the estimated impact on net (loss)/income of a 10% change in the closing rates as at December 31, 2019 and 2018 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

	December 31, 2019 CAD $'000	**December 31, 2018 CAD $'000**
US dollars	13	63
Euro	37	21
Swiss Franc	-	235
	50	319

d) *Commodity price risk*

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

As at December 31, 2019, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the nine months ended December 30, 2019 of approximately CAD $3k (2018 – CAD $3k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the nine months ended December 31, 2019 of approximately CAD $23k (2018 – CAD $32k).

As at December 31, 2019, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net loss for the nine months ended December 30, 2019 of approximately $189k (2018 – $187k).

e) *Interest rate risk*

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

23. Capital management

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

	December 31, 2019 CAD $'000	December 31, 2018 CAD $'000
Working deficiency	(3,997)	(9,069)
Long-term debt	1,055	981
Shareholders' equity	575,773	571,595

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

As announced by the Company on its RNS dated 17 September 2019, 01 October 2019 and 24/10/2019, it had successfully reduced its debt position with a specific focus on the elimination of all short-term debt positions, as clearly demonstrated in the massive reduction of the short-term exposure of CAD$5,072k than the past year.

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

24. Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	December 31, 2019 CAD $'000	December 31, 2018 CAD $'000
Cash and cash equivalents	1,672	4,133
Loans – repayable within one year	(2,200)	(4,251)
Loans – repayable after one year	(1,055)	(981)
Non-convertible bond – repayable within one year	-	(351)
Non-convertible bond – repayable after one year	(4,759)	-
	(6,342)	(1,450)

	Cash	Loans due within one year	Loans due after one year	Non-convertible bond due within one year	Non-convertible bond due after one year	Total
Net debt	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
December 31, 2017	**2,358**	**(2,771)**	**(2,339)**	**(381)**	**-**	**(3,133)**
Issue of new loans/Accretion	457	(457)	-	-	-	-
Repayment of loans/conversion	(365)	202	133	30	-	-
Transfer from current to non-current	-	(1,225)	1,225	-	-	-
Net cash flow	1,683					1,683
December 31, 2018	**4,133**	**(4,251)**	**(981)**	**(351)**	**-**	**(1,450)**

	Cash	**Loans due within one year**	**Loans due after one year**	**Non-convertible bond due within one year**	**Non-convertible bond due after one year**	**Total**
Net debt	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
December 31, 2018	**4,133**	**(4,251)**	**(981)**	**(351)**		**(1,450)**
Issue of non-convertibles bonds	3,376	-	-	-	(3,376)	**-**
Interest accrued	-	(7)	-	(63)	-	**(70)**
Bonds in treasury	-	-	-	-	(1,383)	**(1,383)**
Debt reduction on settlement of loan	-	643	-	-	-	**643**
Repayment of non-convertible bonds	(414)	-	-	414	-	**-**
Issue of new loan/accretion	2,327	(2,327)	-	-	-	-
Foreign exchange	-	375	-	-	-	**375**
Transfer from current to non-current	-	74	(74)	-	-	**-**
Repayment of loans	(3,293)	3,293	-	-	-	**-**
Net cash flow	(4,457)	-	-	-	-	**(4,457)**
December 31, 2019	**1,672**	**(2,200)**	**(1,055)**	**-**	**(4,759)**	**(6,342)**

25. Operating segments

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

The Group has four reportable segments which are as follows:

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

PERIOD 2018	**Azerbaijan CAD$000**	**Italy CAD$000**	**Other CAD$000**	**Total CAD$000**
Property and equipment	1,064,292	9,021	2,212	1,075,525
Other assets	2,428	1,040	4,252	7,720
Total liabilities	491,827	8,389	11,434	511,650
Capital Expenditures	37	58	296	391
Revenue	5,100	583	-	5,683
Operating and transportation	(3,174)	(111)	(334)	(3,619)
General and Administrative	(1,017)	(313)	(4,763)	(6,093)
Depletion and depreciation	(1,145)	(64)	(28)	(1,237)
Finance and other expenses	(48)	(11)	(551)	(610)
Taxation	-	-	(1)	(1)
Segment income / (loss)	**(284)**	**84**	**(5,677)**	**(5,877)**

PERIOD 2019	**Azerbaijan CAD $000**	**Italy CAD $000**	**Other CAD $000**	**Total CAD $000**
Property and equipment	1,065,99	8,116	7,296	1,081,404
Other assets	2,949	1,203	3,227	7,379
Total liabilities	496,230	8,013	8,767	513,010
Capital Expenditures	916	29	1,971	2,916
Revenue	3,771	570	-	4,341
Operating and transportation	(2,397)	(184)	(145)	(2,726)
General and Administrative	(720)	(271)	(3,144)	(4,135)
Depletion and depreciation	(1,067)	(38)	(251)	(1,356)
Finance and other expenses	(52)	(4)	718	662
Segment income / (loss)	**(465)**	**73**	**(2,822)**	**(3,214)**

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

	2019 CAD $000	**2018 CAD $000**
Customer A	3,658	5,100
Customer B	490	479

26. Controlling party

At as of December 31, 2019, the Directors do not consider there to be a controlling party.

27. Events subsequent to the quarter end

a) On January 6, 2020, the Company announced that it had reached an agreement to provide a secured loan facility (the "**Facility**") to Anglo African Oil & Gas plc ("**AAOG**") for a total amount of £250,000. The purpose of the Facility is to assist AAOG in addressing its immediate working capital requirements following the signing of a conditional share purchase agreement for Zenith's acquisition of an 80 percent interest in AAOG's fully owned subsidiary in the Republic of the Congo, Anglo African Oil & Gas Congo S.A.U ("**AAOG Congo**") ("**Acquisition**").

The Facility will be repayable at any time by AAOG with no early repayment penalties and will have an interest rate of 5 percent per annum which will be payable on final repayment.

Zenith will set off sums payable by it to AAOG pursuant to the SPA against the Facility, which means the Facility is essentially an advance on sums payable by Zenith to AAOG pursuant to the SPA. The Facility will be secured on the shares in AAOG Congo.

b) On January 13, 2020, The Company announced that it had entered into a term sheet for a Put and Call Option Agreement with Anglo African Oil & Gas plc ("**AAOG**") over the residual holding of 20 percent in Anglo African Oil & Gas Congo SAU ("**AAOG Congo**") that AAOG will retain ("**the Residual Shares**") following the signing of a conditional share purchase agreement ("**SPA**") for Zenith's acquisition of an 80 percent interest in AAOG Congo (the "**Acquisition**").
The term sheet for the put and call option provides for the following key provisions:

Call Option

The Call Option over the Residual Shares may only be exercised by Zenith on January 16, 2021, and can only be exercised if, as at January 15, 2021, the total production from the Tilapia oilfield has never exceeded an average of at least 2,000 bopd for any period of 30 consecutive days prior to January 15, 2021.
If the Call Option is exercised, the consideration payable by Zenith for the Residual Shares shall be an amount of £1,000,000 (**"Call Option Consideration"**). The Call Option Consideration is to be settled by the issue of common shares in Zenith, the number of common shares to be issued being calculated on a 15-day VWAP (volume-weighted average price) of Zenith's common shares admitted to trading on the London Stock Exchange Main Market for listed securities in the 15-day period immediately prior to exercise of the Call Option.

Put Option

The Put Option over the Residual Shares may only be exercised by AAOG on January 16, 2021 and can only be exercised if, as at January 15, 2021, the total production from the Tilapia oilfield has been an average of at least 4,000 bopd for any period of 30 consecutive days prior to January 15, 2021.
If the Put Option is exercised, the consideration payable by Zenith for the Residual Shares shall be an amount of £2,500,000 (**"Put Option Consideration"**). The Put Option Consideration is to be settled by the issue of common shares in Zenith, the number of common shares to be issued being calculated on a 15-day VWAP of Zenith's common shares admitted to trading on the London Stock Exchange Main Market for listed securities in the 15-day period immediately prior to exercise of the Put Option.

The Company is in the process of agreeing and entering into the final form of the Put and Call Option Agreement and a further announcement will be made on this in due course.

c) On January 13, 2020, Zenith announced the passing of a resolution by the shareholders of Anglo African Oil & Gas plc ("**AAOG**") to approve the sale of 80 percent in Anglo African Oil & Gas Congo SAU ("**AAOG Congo**") to Zenith (the "**Acquisition**") at the general meeting held that day.

d) On January 20, 2020, the Company announced the upcoming issuance of the following unsecured, multi-currency Euro Medium Term Notes at par value (the "**Notes**"):

- EURO 1,000,000 bearing an interest of 10.125 per cent per year (the "**EUR-Notes**")
- GBP 1,000,000 bearing an interest of 10.50 per cent per year (the "**GBP-Notes**")
- USD 1,000,000 bearing an interest of 10.375 per cent per year (the "**USD-Notes**")
- CHF 1,000,000 bearing an interest of 10.00 per cent per year (the "**CHF-Notes**")

The Notes will be issued under Zenith's EUR 25,000,000 multi-currency Euro Medium Term Notes Programme, as announced by the Company on November 6, 2019, and will be due on January 27, 2024. The Notes will be admitted to trading on the Third Market (MTF) of the Vienna Stock Exchange ("**Wiener Borse AG**").

The Notes are governed by Austrian law and, since the Notes are not convertible into equity of Zenith, the issuance of the Notes is not subject to the approval of the TSX Venture Exchange in Canada.
The issue of the Notes is aligned with the Company's strategy of diversifying its financing towards non-equity dilutive funding to support its successful development.

e) On January 21, 2020, the Company entered into the put and call option agreement ("**Put and Call Option Agreement**") with Anglo African Oil & Gas plc ("**AAOG**") over the residual holding of 20 percent in Anglo African Oil & Gas Congo SAU ("**AAOG Congo**") that AAOG will retain (the "**Residual Shares**") following the signing of a conditional share purchase agreement ("**SPA**") for Zenith's acquisition of an 80 percent interest in AAOG Congo (the "**Acquisition**").

The Put and Call Option Agreement incorporates the key provisions of the agreed term sheet for the put and call option agreement with AAOG which were announced by the Company on January 13, 2020.

f) On January 29, 2020, the Company announced a Private Placement on the Merkur Market of the Oslo Stock Exchange.

The Company successfully raised gross proceeds of NOK 11,105,882 (approximately £935,000 or CAD$1,610,000) to subscribe for 55,529,412 common shares of no-par value in the capital of the Company ("**New Common Shares**") at a price of NOK 0.20 per New Common Share.

g) On January 30, 2020, the Company announced the establishment of its fully owned Norwegian subsidiary, Zenith Energy AS ("**Zenith Norway**").

As announced on December 9, 2019, Zenith intends to use Zenith Norway as a vehicle for intended participation in future licensing bids to be organized by the Norwegian Ministry of Petroleum and Energy, as well as to actively pursue the potential acquisition of working interests in mature energy production assets across Northern Europe.

To this end, the Company will mandate a leading Norwegian law firm to advise on the process of obtaining pre-qualification status for the acquisition of participating interests in Norwegian Continental Shelf ("**NCS**") energy production licenses.

The pre-qualification process entails a general assessment by the Norwegian authorities of Zenith's eligibility to become a licensee. Upon the successful achievement of pre-qualification status, in order to qualify as a licensee, Zenith will need to complete a transaction and obtain approval to become a licensee or operator for the specific production license from the Norwegian Ministry of Petroleum and Energy and the Ministry of Finance.