

# Zenith Energy Ltd.

Condensed Interim Consolidated Financial Statements

As at and for the three months ended June 30, 2015

(Unaudited)

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## **Notice of No Auditor Review of Interim Consolidated Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements as at and for the three months ended June 30, 2015.

## **Managements' Responsibility**

To the Shareholders of Zenith Energy Ltd.:

The accompanying unaudited condensed interim consolidated financial statements of Zenith Energy Ltd. (the "Company") as at and for the three months ended June 30, 2015 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) "Luigi Regis Milano"  
Chief Financial Officer

August 26, 2015

Calgary, Alberta

# Zenith Energy Ltd.

## Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(Expressed in Canadian dollars)

As at		<b>June 30</b>	March 31
	Note	<b>2015</b>	2015
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		675,649	936,499
Marketable securities	3	186,529	236,993
Trade and other receivables	17	787,090	713,031
Inventory		59,750	65,419
Prepaid expenses		303,510	247,384
		<b>2,012,528</b>	<b>2,199,326</b>
<b>Non-current assets</b>			
Property and equipment	4	16,210,407	16,693,522
Prepaid property and equipment insurance		312,495	355,407
<b>Total assets</b>		<b>18,535,430</b>	<b>19,248,255</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	1,987,291	2,234,573
Oil share agreement		988,134	1,004,690
Note payable	5	-	200,499
Loan payable	6	2,120,580	2,166,679
		<b>5,096,005</b>	<b>5,606,441</b>
<b>Non-current liabilities</b>			
Loan payable	6	436,590	433,336
Convertible notes	7	634,161	582,646
Derivative liability	7	156,088	159,322
Bonds	8	501,866	-
Decommissioning obligation	9	5,258,852	5,779,799
Deferred taxes		2,397,623	2,397,623
		<b>9,385,180</b>	<b>9,352,726</b>
<b>Total liabilities</b>		<b>14,481,185</b>	<b>14,959,167</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		8,686,556	8,686,556
Warrants	10	1,296,608	1,245,708
Contributed surplus		2,138,583	2,138,583
Accumulated other comprehensive loss		(1,748,009)	(1,810,281)
Deficit		(6,319,493)	(5,971,478)
<b>Total shareholders' equity</b>		<b>4,054,245</b>	<b>4,289,088</b>
<b>Total liabilities and shareholders' equity</b>		<b>18,535,430</b>	<b>19,248,255</b>

Going concern (Note 1)

Subsequent events (Note 18)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Zenith Energy Ltd.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (unaudited)

(Expressed in Canadian dollars)

For the three months ended June 30		2015	2014
	Note	\$	\$
<b>Revenue</b>			
Oil and gas revenue		971,349	1,193,948
Royalties		(72,322)	(76,985)
		899,027	1,116,963
<b>Expenses</b>			
Operating		350,673	536,510
Transportation		26,111	6,754
General and administrative		691,562	762,813
Foreign exchange		(124,783)	(16,852)
Fair value adjustment on marketable securities	3	2,293	141,888
Fair value adjustment on derivative liability	7	(3,234)	(968)
Depletion and depreciation		100,641	196,587
		1,043,263	1,626,732
<b>Loss from operations</b>		(144,236)	(509,769)
Finance expense	13	(203,779)	(245,188)
<b>Net Loss</b>		(348,015)	(754,957)
Exchange differences on translation on foreign operations		62,272	348,823
<b>Comprehensive loss</b>		(285,743)	(406,134)
<b>Net loss per share</b>			
Basic and diluted	12	(0.01)	(0.05)
<b>Weighted average shares outstanding</b>			
Basic and diluted	12	29,292,081	14,523,150

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Zenith Energy Ltd.

## Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(Expressed in Canadian dollars)

For the three months ended June 30		2015	2014
	Note	\$	\$
<b>Operating activities</b>			
Net income (loss)		(348,015)	(754,957)
Items not involving cash:			
Fair value adjustment on marketable securities		2,293	141,888
Fair value adjustment on derivative liability		(3,234)	(968)
Depletion and depreciation		100,641	196,587
Finance expense		112,323	139,266
		(135,992)	(278,184)
Foreign exchange on translation		(81,088)	30,791
Change in non-cash working capital	15	(301,077)	(153,180)
		(518,157)	(400,573)
<b>Financing activities</b>			
Proceeds from issuance of bonds		517,731	-
Repayment of notes payable		(201,383)	(113,587)
Proceeds from issue of share capital, net of share issue costs		-	1,125,725
Change in non-cash working capital	15	(30,660)	-
		285,688	1,012,138
<b>Investing activities</b>			
Proceeds on sale of marketable securities		201,383	-
Purchase of marketable securities		(136,568)	-
Expenditures on property and equipment		(111,902)	(31,653)
Change in non-cash working capital	15	34,314	23,894
		(12,773)	(7,759)
Change in cash		(245,242)	603,806
Foreign exchange effect on cash held in foreign currencies		(15,608)	(30,553)
Cash, beginning of period		936,499	711,248
<b>Cash, end of period</b>		<b>675,649</b>	<b>1,284,501</b>
<b>Supplemental cash flow information</b>			
Interest paid		58,479	69,441
Taxes paid		-	-

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Zenith Energy Ltd.

## Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(Expressed in Canadian dollars)

For the three months ended June 30	Note	2015 \$	2014 \$
<b>Share capital</b>			
Balance - beginning of period		8,686,556	7,151,893
Unit private placement, net of issue costs		-	1,125,725
Fair value of warrants		-	(867,900)
<b>Balance - end of period</b>		<b>8,686,556</b>	<b>7,409,718</b>
<b>Warrants</b>			
	10		
Balance - beginning of period		1,245,708	487,257
Fair value of warrants		50,900	867,900
Expiry of warrants		-	(11,687)
<b>Balance - end of period</b>		<b>1,296,608</b>	<b>1,343,470</b>
<b>Contributed surplus</b>			
Balance - beginning of period		2,138,583	1,744,326
Expiry of warrants		-	11,687
<b>Balance - end of period</b>		<b>2,138,583</b>	<b>1,756,013</b>
<b>Accumulated other comprehensive loss</b>			
Balance - beginning of period		(1,810,281)	(212,077)
Exchange differences on translation of foreign operations		62,272	348,823
<b>Balance - end of period</b>		<b>(1,748,009)</b>	<b>136,746</b>
<b>Deficit</b>			
Balance - beginning of period		(5,971,478)	(3,595,197)
Net loss		(348,015)	(754,957)
<b>Balance - end of period</b>		<b>(6,319,493)</b>	<b>(4,350,154)</b>
<b>Total equity</b>		<b>4,054,245</b>	<b>6,295,793</b>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Zenith Energy Ltd.

## Notes to the Condensed interim Consolidated Financial Statements

For the three months ended June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

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### 1. Nature of operations and going concern

Zenith Energy Ltd. (“Zenith” or the “Company”) was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The address of the Company’s registered office is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Company is primarily involved in the exploration for, development of and production of oil and natural gas properties primarily in Argentina and Italy.

As at June 30, 2015, the Company has a working capital deficit of \$3,083,477 (March 31, 2015 – \$3,407,115) and an accumulated deficit of \$6,319,493 (March 31, 2015 – \$5,971,478) since its inception, and may incur future losses in the development of its business. Current cash resources will not be sufficient to continue the exploration and development activities. These conditions indicate the existence of material uncertainties that may cast doubt on the Company’s ability to continue as a going concern. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and attain future profitable operations in Argentina and Italy. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

In July 2015, subject to regulatory approval, the Company amended the terms of the convertible notes (Notes 7 and 18) to reduce the conversion price from \$0.215 per share to \$0.125 per share and reduce the rate of interest from 9% to 5%.

These consolidated financial statements have been prepared on the basis of the going concern assumption that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these consolidated financial statements, and that the Company will be able to continue its business activities. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then the adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the classifications used in the consolidated statements of financial position. These adjustments could be material.

### 2. Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standard 34 – Interim Financial Reporting. The Company has consistently applied the same accounting policies throughout all periods presented. These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company’s annual filings for the year ended March 31, 2015.

The following entities have been consolidated within the Company’s financial statements:

<u>Entity</u>	<u>Registered</u>	<u>Holding</u>
Zenith Energy Ltd.	Canada	Parent
Ingenieria Petrolera del Rio de la Plata SRL	Argentina	100%
Ingenieria Petrolera Patagonia Ltd (“IPP”)	US	100%
Canoel Italia SRL	Italy	100%
Petrolera Patagonia Corporation (“PPC”)	US	100% owned subsidiary of IPP
PP Holding Inc. (“PPH”)	US	100% owned subsidiary of IPP
Petrolera Patagonia SRL	Argentina	95% owned subsidiary of PPC and 5% held by PPH

These consolidated financial statements were authorized for issue by the Board of Directors on August 26, 2015.

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# Zenith Energy Ltd.

## Notes to the Condensed interim Consolidated Financial Statements

For the three months ended June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

### 3. Marketable securities

	June 30 2015	March 31 2015
GRIT shares (a)	\$ 33,250	\$ 34,130
Bonds (b)	153,279	202,863
	\$ 186,529	\$ 236,993

#### (a) GRIT shares

As at June 30, 2015, the Company held 116,913 Global Resources Investment Trust plc (“GRIT”) common shares with a fair value of £16,952 (CAD \$33,250) (March 31, 2015 – 116,913 GRIT shares with a fair value of £18,122 (CAD \$34,130)). During the three months ended June 30, 2015, the Company recognized a \$2,293 loss on the fair value of the marketable securities and a \$1,413 gain on foreign exchange in the consolidated statement of loss and comprehensive loss.

#### (b) Bonds

As at March 31, 2015, the Company held US\$120,370 of Argentine government-issued Boden 2015 bonds at a market price of 11.72 USD bonds to Pesos (CAD \$202,863). The bonds bore interest at a fixed rate of 7 % per annum payable semiannually, calculated on the basis of a 360 day year, and were to mature on October 3, 2015 with early redemption permitted at the option of the holder. In May 2015, the Company sold the bonds and used the proceeds to repay notes payable as disclosed in Note 5.

In May 2015, the Company acquired US\$84,000 of Argentine government-issued Boden 2015 bonds at a market price of 11.78 USD bonds to Pesos (CAD\$136,568). The bonds bear interest at a fixed rate of 7 % per annum payable semiannually, calculated on the basis of a 360 day year, and mature on October 3, 2015 with early redemption permitted at the option of the holder.

As at June price rate of 13.30 USD bonds to Pesos. The bonds were sold in July 2015 at a market price of 13.43 USD bonds to Pesos. See Note 18(b).

### 4. Property and equipment

	D&P assets	Furniture & fixtures	Total
<b>Cost</b>			
Balance – March 31, 2015	\$ 18,600,085	\$ 84,023	\$ 18,684,108
Additions	111,902	–	111,902
Decommissioning obligation	(650,331)	–	(650,331)
Foreign currency translation	149,238	(3,857)	145,381
Balance – June 30, 2015	\$ 18,210,894	\$ 80,166	\$ 18,291,060
<b>Accumulated depletion and depreciation</b>			
Balance – March 31, 2015	\$ (1,933,815)	\$ (56,771)	\$ (1,990,586)
Depletion and depreciation	(99,605)	(1,036)	(100,641)
Foreign currency translation	7,963	2,611	10,574
Balance – June 30, 2015	\$ (2,025,457)	\$ (55,196)	\$ (2,080,653)
<b>Carrying amount</b>			
March 31, 2015	\$ 16,666,270	\$ 27,252	\$ 16,693,522
June 30, 2015	\$ 16,185,437	\$ 24,970	\$ 16,210,407

The depletion calculation for the three months ended June 30, 2015 included estimated future development costs of \$4.9 million for proved and probable reserves (March 31, 2015 – \$4.9 million).



# Zenith Energy Ltd.

## Notes to the Condensed interim Consolidated Financial Statements

For the three months ended June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

The Company did not identify any indicators of impairment at June 30, 2015.

### 5. Note payable

As at March 31, 2015, the Company had \$200,499 of notes payable outstanding comprised of US\$98,670 principal amount of notes payable plus US\$20,094 of accrued interest. The notes payable were secured by a mortgage on the oil and natural gas properties in Argentina and bore interest at a fixed rate of 11%.

During the three months ended June 30, 2015, the Company repaid the balance of the note payable including accrued interest with proceeds from the sale of bonds (Note 3(b)). As at June 30, 2015, the balance of the note payable is \$nil.

### 6. Loan payable

As at March 31, 2015, the Company was indebted to a third party lender for a US\$2,050,000 (CAD\$2,600,015) loan payable secured by the shares of its wholly owned subsidiary, IPP, and bearing fixed interest at 10% per annum. All accrued and unpaid interest up to June 1, 2015 was to be paid in full by June 1, 2015, followed by equal monthly installments of principal and interest until June 1, 2016.

In May 2015, the Company amended the loan payable repayment schedule and extended the maturity date from June 1, 2016 to August 30, 2016. Pursuant to the amended agreement, the Company will make repayments of principal and interest in the amount of US\$17,200 per month from June 1, 2015 to August 30, 2016, a US\$700,000 payment on November 30, 2015, a US\$1,000,000 payment on April 15, 2016 and a final payment of approximately US\$389,597 on August 30, 2016.

As at June 30, 2015, \$2,120,580 (March 31, 2015 – \$2,166,679) of principal is classified as a current liability; \$436,590 (March 31, 2015 – \$433,336) of principal is classified as long-term and \$162,833 (March 31, 2015 – \$166,641) of accrued interest is included in traded and other payables.

### 7. Convertible notes

	Face value	Debt component	Derivative liability
	\$	\$	\$
<b>Balance – March 31, 2015</b>	809,505	582,646	159,322
Change in fair value	–	–	(3,234)
Accretion	–	35,736	–
Foreign exchange	17,713	15,779	–
<b>Balance – June 30, 2015</b>	<b>827,218</b>	<b>634,161</b>	<b>156,088</b>

As at June 30, 2015 and March 31, 2015, the Company held \$620,000 Swiss Francs of unsecured convertible notes bearing interest at 9% per annum, payable in arrears in equal quarterly installments and maturing on January 11, 2017. At any time prior to maturity and at the option of the note holder, the principal and any unpaid interest of a note may be converted into common shares of the Company at a price of CAD\$0.215 per share.

Interest is accrued and presented in trade and other payables in the amount of \$259,724 as at June 30, 2015 (March 31, 2015 – \$235,974).

In July 2015, the Company amended the terms of the unsecured convertible notes. See Note 18(a).

# Zenith Energy Ltd.

## Notes to the Condensed interim Consolidated Financial Statements

For the three months ended June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

### 8. Bonds payable

<b>Balance – March 31, 2015</b>	\$	–
Unit private placement proceeds		538,900
Fair value of warrants		(49,000)
Finder's warrants		(1,900)
Finder's fees		(21,169)
		466,831
Accretion of warrants and finder's fees		5,129
Foreign currency translation		29,906
<b>Balance – June 30, 2015</b>	\$	501,866

During the three months ended June 30, 2015, the Company completed a non-brokered private placement of 290,000 units at a price of GBP 1.00 per unit (\$1.86 per unit) for gross proceeds of GBP 290,000 (\$538,900). Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants. The bonds are secured by 99% of the oil and gas properties owned by the Company's subsidiary, Canoe Italia SRL. The bonds bear interest at 12% per annum, payable quarterly, until the maturity date 36 months from the date of issuance at which time the principal amount of bonds is repayable in full.

Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of \$0.25 per share for a period of 36 months from the date of issuance. In connection with the private placement, the Company paid a finder's fees of GBP 11,250 (\$21,169) and granted 67,500 finder's warrants exercisable at \$0.25 until for a period of 36 months from the date of issuance.

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

Risk-free interest rate	0.50% - 0.70%
Expected volatility	75%
Expected life	3 years
Dividends	nil

Included in trade and other payables as at June 30, 2015 is \$13,036 of accrued interest.

### 9. Decommissioning obligation

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

<b>Balance – March 31, 2015</b>	\$	5,779,799
Change in estimate		(650,331)
Accretion		70,788
Foreign currency translation		58,596
<b>Balance – June 30, 2015</b>	\$	5,258,852

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

Undiscounted cash flows – uninflated	\$16.3 million
Undiscounted cash flows - inflated	\$309.5 million
Risk free rate	28.6%
Inflation rate	14.6%
Expected timing of cash flows	18 – 23 years

# Zenith Energy Ltd.

## Notes to the Condensed interim Consolidated Financial Statements

For the three months ended June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

### 10. Warrants

	Number of warrants	Amount \$	Weighted average exercise price
<b>Balance – March 31, 2015</b>	17,228,852	1,245,708	\$ 0.25
Unit private placement (Note 8)	1,740,000	49,000	0.25
Finder's fees (Note 8)	67,500	1,900	0.25
<b>Balance – June 30, 2016</b>	19,036,352	1,296,608	\$ 0.25

As at June 30, 2015, the Company had 17,228,852 warrants outstanding and exercisable at a weighted average exercise price of \$0.25 per share with a weighted average life remaining of 2.2 years.

### 11. Stock options

As at June 30, 2015 and March 31, 2015, the Company had a 175,000 stock options outstanding and exercisable at a weighted average exercise price of \$1.00 per share. As at June 30, 2015, the weighted average life remaining of stock options was 0.5 years.

### 12. Per share amounts

For the three months ended June 30	2015	2014
Net loss	\$ (348,015)	\$ (754,957)
Weighted average number of shares – basic:		
Issued common shares as at April 1	29,292,081	11,252,039
Effect of common shares issued during the year	–	3,271,111
	29,292,081	14,523,150
Net loss per share – basic and diluted <sup>(1)</sup>	\$ (0.01)	\$ (0.05)

<sup>(1)</sup> The Company did not have any in-the-money convertible notes, warrants and stock options during the three months ended June 30, 2015 and 2014. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

### 13. Finance expense

For the three months ended June 30	2015	2014
Interest expense	\$ 92,126	\$ 115,636
Accretion of convertible notes (Note 7)	35,736	26,254
Accretion of bonds (Note 8)	5,129	–
Accretion of decommissioning obligation (Note 9)	70,788	103,298
	\$ 203,779	\$ 245,188

# Zenith Energy Ltd.

## Notes to the Condensed interim Consolidated Financial Statements

For the three months ended June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

### 14. Supplemental disclosure

The condensed interim consolidated statements of loss and comprehensive loss are prepared primarily by nature of expense with the exception of employee compensation cost which is included in operating and general and administrative expenses. The following table details the amounts of total employee compensation:

For the three months ended June 30	2015	2014
Operating	\$ 195,451	\$ 218,196
General and administrative	161,873	236,292
<b>Total employee compensation cost</b>	<b>\$ 357,324</b>	<b>\$ 454,488</b>

### 15. Change in non-cash working capital

For the three months ended June 30	2015	2014
Trade and other receivables	\$ (72,861)	\$ (109,683)
Inventory	2,670	18,532
Prepaid expenses	(59,545)	(80,139)
Prepaid property and equipment insurance	54,243	23,476
Trade and other payables	(221,930)	18,528
<b>Total change in non-cash working capital</b>	<b>\$ (297,423)</b>	<b>\$ (129,286)</b>

The change in non-cash working capital has been allocated to the following activities:

	2015	2014
Operating	\$ (301,077)	\$ (153,180)
Financing	(30,660)	–
Investing	34,314	23,894
<b>Total change in non-cash working capital</b>	<b>\$ (297,423)</b>	<b>\$ (129,286)</b>

### 16. Related party transactions

- Included in general and administrative expenses is \$57,295 (2014 – \$68,059) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at June 30, 2015, \$nil (March 31, 2015 – \$nil) was included in trade and other payables in respect of these charges.
- Included in trade and other payables is \$8,945 (March 31, 2015 – \$nil) due to officers and directors of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officers and directors will be reimbursed.

### 17. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

#### 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 Company's maximum credit risk exposure is limited to the carrying

# Zenith Energy Ltd.

## Notes to the Condensed interim Consolidated Financial Statements

For the three months ended June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

amount cash of \$675,649 (March 31, 2015 – \$936,499) and trade and other receivables of \$787,090 (March 31, 2015 – \$713,031).

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

	June 30 2015	March 31 2015
Oil and natural gas sales	\$ 459,846	\$ 383,067
Stamp tax and other tax withholdings	205,983	234,394
Goods and services tax	20,804	16,964
Other	100,457	78,606
	<b>\$ 787,090</b>	<b>\$ 713,031</b>

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

The Company considers its receivables to be aged as follows:

	June 30 2015	March 31 2015
Current	\$ 539,480	\$ 443,999
90 + days	247,610	269,032
	<b>\$ 787,090</b>	<b>\$ 713,031</b>

### b) Liquidity risk

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

As at June 30, 2015, the Company had \$5,096,005 (March 31, 2015 – \$5,606,441) of current liabilities for which the Company's \$675,649 (March 31, 2015 – \$936,499) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company.

As of June 30, 2015, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying amount	Contractual cash flows	Due on or before June 30 2016	Due on or before June 30 2017	Due on or before May 20 2018
Trade and other payables	\$ 1,987,291	1,987,291	1,987,291	–	–
Oil share agreement	988,134	988,134	988,134	–	–
Loan payable	2,557,170	2,856,324	2,120,580	735,744	–
Convertible notes	634,161	941,646	74,654	–	866,992
Bonds payable	501,866	762,549	68,445	–	694,104
	<b>\$ 6,668,622</b>	<b>7,535,944</b>	<b>5,239,104</b>	<b>735,744</b>	<b>1,561,096</b>

### c) Market risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect

# Zenith Energy Ltd.

## Notes to the Condensed interim Consolidated Financial Statements

For the three months ended June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

the Company's net income (loss) or the value of financial instruments.

i) 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	
	June 30 2015	March 31 2015	Three months ended June 30	
			2015	2014
ARS	0.1372	0.1438	0.1357	0.1354
US dollars	1.2474	1.2683	1.1387	1.0902
Euro	1.3911	1.3623	1.4382	1.4955
Swiss Franc	1.3342	1.3057	1.2248	1.2268
GBP	1.9614	1.8834	1.3602	1.4955

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at June 30, 2015 and 2014 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

For the three months ended June 30	2015	2014
US dollars	\$ 255,140	\$ 245,840
Swiss Franc	53,560	148,045
GBP	108,690	—
	\$ 417,390	\$ 393,885

ii) Commodity price risk

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

As at June 30, 2015, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the three months ended June 30, 2015 of approximately \$3,990 (2014 – \$12,170).

Oil prices in Argentina are the results of formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. As at June 30, 2015, a 5% change in the price of oil would represent a change in net income (loss) for the three months ended June 30, 2015 of approximately \$40,450 (2014 – \$46,860).

iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has fixed interest on loan payable (Note 6), convertible notes (Note 7) and bonds payable (Note 8) and therefore is not exposed to interest rate risk.

### 18. Subsequent events

- a) In July 2015, subject to approval by the TSX Venture Exchange, the Company entered into an agreement to amend the terms of its unsecured convertible notes (Note 7). Pursuant to the terms of the agreement, the conversion price was reduced from \$0.215 per share to \$0.125 per share and the rate of interest was reduced from 9% to 5%. The amended conversion price is based on the July 7, 2015 closing market price of the Company's shares.
- b) In July 2015, the Company sold USD\$84,000 of Boden 2015 bonds at a market price of 13.43 USD bonds to Pesos. See Note 3(b).

# Zenith Energy Ltd.

## Notes to the Condensed interim Consolidated Financial Statements

For the three months ended June 30, 2015

(Unaudited)

(Expressed in Canadian dollars)

### 19. Operating segments

The Company's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Company's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Company's management. The Company has three reportable segments which are as follows:

- Argentina;
- Italy; and,
- Other, which includes corporate assets and the operations in the Canadian and US entities. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2015 or 2014.

		June 30, 2015				March 31, 2015			
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Property and equipment	\$	1,932,269	14,278,138	-	16,210,407	2,250,254	14,443,268	-	16,693,522
Other assets	\$	729,962	1,097,648	497,413	2,325,023	930,904	1,120,668	503,161	2,554,733
Total liabilities	\$	4,654,535	5,125,272	4,701,378	14,481,185	5,184,303	5,468,607	4,306,257	14,959,167
Capital expenditures	\$	(80,977)	(30,925)	-	(111,902)	(929,624)	(240,976)	-	(1,170,600)

		Three months ended June 30							
		2015		2014		2015		2014	
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Revenue	\$	803,577	937,393	167,772	256,555	-	-	971,349	1,193,948
Royalties		72,322	76,985	-	-	-	-	72,322	76,985
Operating and transportation		326,927	414,224	49,857	129,040	-	-	376,784	543,264
General and administrative		254,606	151,491	105,569	100,121	331,387	511,201	691,562	762,813
Depletion and depreciation		36,353	104,753	64,288	91,834	-	-	100,641	196,587
Finance and other (income) expenses		(76,589)	184,195	5,002	6,802	149,642	178,259	78,055	369,256
Segment income (loss)	\$	189,958	5,745	(56,944)	(71,242)	(481,029)	(689,460)	(348,015)	(754,957)