Zenith Energy Ltd.

Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended September 30, 2015

(Unaudited)

Managements’ Responsibility

To the Shareholders of Zenith Energy Ltd.:

The accompanying unaudited condensed interim consolidated financial statements of Zenith Energy Ltd. (the “Company”) as at and for the three and six months ended September 30, 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

November 27, 2015

Calgary, Alberta

Zenith Energy Ltd.

Condensed Interim Consolidated Statements of Financial Position
(unaudited)
(Expressed in Canadian dollars)

As at	Note	**September 30 2015** $	March 31 2015 $
ASSETS			
Current assets			
Cash		522,371	936,499
Marketable securities	3	20,118	236,993
Trade and other receivables	18	920,227	713,031
Inventory		214,632	65,419
Prepaid expenses		375,159	247,384
		2,052,507	2,199,326
Non-current assets			
Property and equipment	4	17,412,823	16,693,522
Prepaid property and equipment insurance		292,115	355,407
Total assets		19,757,445	19,248,255
LIABILITIES			
Current liabilities			
Trade and other payables	18	2,315,379	2,234,573
Oil share agreement		1,061,092	1,004,690
Note payable	5	-	200,499
Loans payable	6	2,803,329	2,166,679
		6,179,800	5,606,441
Non-current liabilities			
Loans payable	6	262,148	433,336
Convertible notes	7	492,264	582,646
Derivative liability	7	207,229	159,322
Bonds	8	526,186	-
Decommissioning obligation	9	5,515,310	5,779,799
Deferred taxes		2,397,623	2,397,623
		9,400,760	9,352,726
Total liabilities		15,580,560	14,959,167
SHAREHOLDERS' EQUITY			
Share capital	10	8,930,456	8,686,556
Warrants	11	1,229,708	1,245,708
Contributed surplus		2,231,583	2,138,583
Accumulated other comprehensive loss		(1,026,672)	(1,810,281)
Deficit		(7,188,190)	(5,971,478)
Total shareholders' equity		4,176,885	4,289,088
Total liabilities and shareholders' equity		19,757,445	19,248,255

Going concern (Note 1)
Subsequent events (Note 19)
Segmented information (Note 20)

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)

		Three months ended September 30		Six months ended September 30	
		2015	2014	**2015**	2014
	Note	$	$	$	$
Revenue					
Oil and gas revenue		560,561	1,042,191	1,531,910	2,236,139
Royalties		(35,565)	(76,452)	(107,887)	(153,437)
		524,996	965,739	1,424,023	2,082,702
Expenses					
Operating		462,161	499,511	812,834	1,036,021
Transportation		27,874	19,301	53,985	26,055
General and administrative		649,201	526,792	1,340,763	1,289,605
Foreign exchange		27,685	34,207	(97,098)	17,355
Fair value adjustment on marketable securities	3	14,201	(8,728)	16,494	133,160
Fair value adjustment on derivative liability	7	(179,732)	(391,672)	(182,966)	(392,640)
Depletion and depreciation		92,963	188,443	193,604	385,030
		1,094,353	1,061,943	2,137,616	2,688,675
Loss from operations		(569,357)	(96,204)	(713,593)	(605,973)
Finance expense	14	(299,340)	(360,724)	(503,119)	(605,912)
Net Loss		(868,697)	(456,928)	(1,216,712)	(1,211,885)
Exchange differences on translation on foreign operations		721,337	(510,784)	783,609	(161,961)
Comprehensive loss		(147,360)	(967,712)	(433,103)	(1,373,846)
Net loss per share					
Basic and diluted	13	(0.03)	(0.02)	(0.04)	(0.07)
Weighted average shares outstanding					
Basic and diluted	13	29,644,255	20,078,169	29,469,130	17,315,837

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 six months ended September 30	Note	**2015** $	2014 $
Operating activities			
Net loss		(1,216,712)	(1,211,885)
Items not involving cash:			
Loss on sale of marketable securities		-	111,655
Fair value adjustment on marketable securities		16,494	133,160
Loss on conversion of convertible notes		-	82,434
Fair value adjustment on derivative liability		(182,966)	(392,640)
Depletion and depreciation		193,604	385,030
Finance expense		240,265	384,752
Reclassification between operating expense and property and equipment		-	-
		(949,315)	(507,494)
Foreign exchange on translation		(47,768)	43,995
Change in non-cash working capital	16	(309,519)	(81,798)
		(1,306,602)	(545,297)
Financing activities			
Proceeds from issuance of bonds		517,731	-
Proceeds from bank loan, net of repayment		306,779	-
Repayment of notes payable		(204,315)	(289,983)
Proceeds from issue of share capital, net of share issue costs		270,000	1,125,725
Change in non-cash working capital	16	(30,660)	-
		859,535	835,742
Investing activities			
Proceeds on sale of marketable securities		361,926	48,083
Purchase of marketable securities		(136,568)	-
Expenditures on property and equipment		(259,517)	(135,381)
Change in non-cash working capital	16	54,850	52,652
		20,691	(34,647)
Change in cash		(426,376)	255,799
Foreign exchange effect on cash held in foreign currencies		12,248	(40,522)
Cash, beginning of period		936,499	711,248
Cash, end of period		522,371	926,525

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 six months ended September 30	Note	**2015** $	2014 $
Share capital			
Balance - beginning of period		8,686,556	7,151,893
Unit private placement	10	270,000	1,125,725
Fair value of warrants		(26,100)	(867,900)
Conversion of convertible notes			539,663
Balance - end of period		8,930,456	7,949,381
Warrants	11		
Balance - beginning of period		1,245,708	487,257
Fair value of warrants		77,000	867,900
Expiry of warrants		(93,000)	(12,857)
Balance - end of period		1,229,708	1,342,300
Contributed surplus			
Balance - beginning of period		2,138,583	1,744,326
Expiry of warrants		93,000	12,857
Balance - end of period		2,231,583	1,757,183
Accumulated other comprehensive loss			
Balance - beginning of period		(1,810,281)	(212,077)
Exchange differences on translation of foreign operations		783,609	(161,961)
Balance - end of period		(1,026,672)	(374,038)
Deficit			
Balance - beginning of period		(5,971,478)	(3,595,197)
Net loss		(1,216,712)	(1,211,885)
Balance - end of period		(7,188,190)	(4,807,082)
Total equity		4,176,885	5,867,744

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

(Expressed in Canadian dollars)

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 September 30, 2015, the Company has a working capital deficit of $4,127,293 (March 31, 2015 – $3,407,115) and an accumulated deficit of $7,188,190 (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.

These condensed interim 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 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:

Entity	Registered	Holding
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 condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 27, 2015.

(Expressed in Canadian dollars)

3. Marketable securities

	September 30 2015	March 31 2015
GRIT shares (a)	$ 20,118	$ 34,130
Bonds (b)	–	202,863
	$ 20,118	$ 236,993

(a) GRIT shares

As at September 30, 2015, the Company held 116,913 Global Resources Investment Trust plc ("GRIT") common shares with a fair value of £9,938 (CAD $20,118) (March 31, 2015 –116,913 GRIT shares with a fair value of £18,122 (CAD $34,130)). During the six months ended September 30, 2015, the Company recognized a $16,494 loss on the fair value of the marketable securities and a $2,482 gain on foreign exchange in the condensed interim 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 for CAD$204,315 of proceeds which were used 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.

The bonds were sold in July 2015 at a market price of 13.43 USD bonds to Pesos for CAD$157,611 of proceeds.

4. Property and equipment

	D&P assets	**Furniture & fixtures**	**Total**
Cost			
Balance – March 31, 2015	$ 18,600,085	$ 84,023	$ 18,684,108
Additions	259,517	–	259,517
Decommissioning obligation	(685,735)	–	(685,735)
Foreign currency translation	1,392,029	(935)	1,391,094
Balance – September 30, 2015	$ 19,565,896	$ 83,088	$ 19,648,984
Accumulated depletion and depreciation			
Balance – March 31, 2015	$ (1,933,815)	$ (56,771)	$ (1,990,586)
Depletion and depreciation	(190,706)	(2,898)	(193,604)
Foreign currency translation	(52,549)	578	(51,971)
Balance – September 30, 2015	$ (2,177,070)	$ (59,091)	$ (2,236,161)
Carrying amount			
March 31, 2015	$ 16,666,270	$ 27,252	$ 16,693,522
September 30, 2015	$ 17,388,826	$ 23,997	$ 17,412,823

The depletion calculation for the six months ended September 30, 2015 included estimated future development costs of $2.8 million for proved and probable reserves (March 31, 2015 – $4.9 million).

(Expressed in Canadian dollars)

The Company did not identify any indicators of impairment in respect of the Argentine CGU at September 30, 2015.

As at September 30, 2015, the Company identified certain business risks related to its Italian CGU, such as a decrease in forecast prices from those in the prior year, as indicators of impairment. As a result, the Company performed an impairment test at September 30, 2015.

Management estimated the recoverable amount of the above CGUs based on the higher of the fair value less costs to sell and its value in use. The estimated value in use was based on 15% discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared March 31, 2015 reserve report, adjusted for a decrease in forecast prices. The September 30, 2015 estimated recoverable amount of the Italian CGU was higher than the carrying amount and therefore no impairment was recognized.

The following prices were used in the September 30, 2015 impairment test of the Italian CGU:

Year	Average USD gas price per mcf	Average USD NGL price per bbl
2015 – remainder	$7.31	$45.19
2016	7.68	52.49
2017	7.93	55.61
2018	8.19	58.13
2019	8.44	59.43
2020	8.60	61.34
2021 and thereafter	1% escalation	1% escalation

5. Note payable

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

During the first three months of fiscal 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 September 30, 2015, the balance of the note payable is $nil.

6. Loans payable

		September 30 2015		March 31 2015
USD loan payable (a)	$	2,745,770	$	2,600,015
Euro bank debt (b)		319,707		–
		3,065,477		2,600,015
Current portion of loans payable		(2,803,329)		(2,166,679)
Long-term portion of loans payable	$	262,148	$	433,336

a) USD 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.

(Expressed in Canadian dollars)

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. The Company made and applied the three US$17,200 payments against accrued interest.

As at September 30, 2015, the US$2,050,000 (CAD$2,745,770) is classified as a current liability and $174,453 (March 31, 2015 – $166,641) of accrued interest is included in traded and other payables.

b) Euro bank debt

On August 6, 2015, the Company obtained a €220,000 loan (CAD$315,986) from the GBM Banca of Rome. The loan is unsecured, bears fixed interest at 7% per annum and is repayable in 60 monthly payments of principal and interest until August 6, 2020.

As at September 30, 2015, the principal balance of the loan was €213,836 (CAD$319,707) of which $57,559 is classified as a current liability and $262,148 is classified as long-term.

7. Convertible notes

	Face value $	Debt component $	Derivative liability $
Balance – March 31, 2015	809,505	582,646	159,322
Modification	–	(230,873)	230,873
Change in fair value	–	–	(182,966)
Accretion	–	107,288	–
Foreign exchange	40,159	33,203	–
Balance – September 30, 2015	849,664	492,264	207,229

As at 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.

In July 2015, the Company entered into an agreement to amend the terms of the $620,000 Swiss Francs of unsecured convertible notes. Pursuant to the terms of the agreement, the conversion price was reduced to $0.125 per share and the rate of interest was reduced to 5%. The amended conversion price is based on the July 7, 2015 closing market price of the Company's shares.

The effect of the amendments has been accounted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be $230,873 on the date of modification.

Interest is accrued and presented in trade and other payables in the amount of $286,025 as at September 30, 2015 (March 31, 2015 – $235,974).

(Expressed in Canadian dollars)

8. Bonds payable

Balance – March 31, 2015	$	–
Unit private placement proceeds		538,900
Allocation to warrants		(49,000)
Finder's warrants		(1,900)
Finder's fees		(21,169)
		466,831
Accretion		11,179
Foreign currency translation		48,176
Balance – September 30, 2015	$	526,186

During the first quarter of fiscal 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, Canoel 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 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 September 30, 2015 is $31,211 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:

Balance – March 31, 2015	$	5,779,799
Change in estimate		(685,735)
Accretion		140,737
Foreign currency translation		280,509
Balance – September 30, 2015	$	5,515,310

(Expressed in Canadian dollars)

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

Undiscounted cash flows – uninflated	\$17.3 million
Undiscounted cash flows - inflated	\$199.7 million
Risk free rate	28.2%
Inflation rate	13.7%
Expected timing of cash flows	18 – 23 years

10. Share capital

	Number of shares		Amount
Balance – March 31, 2015	29,292,081	\$	8,686,556
Unit private placement proceeds	2,700,000		270,000
Fair value of warrants	–		(26,100)
Balance – September 30, 2015	31,992,081	\$	8,930,456

On September 18, 2015, the Company completed the private placement of 2,700,000 units at \$0.10 per unit for gross proceeds of \$270,000. Each unit is comprised of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at \$0.25 per share for a period of 36 months from the date of issuance.

The grant date fair value of the warrants was \$0.02 per warrant (\$26,100) estimated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.54%
Expected volatility	75%
Expected life	3 years
Dividends	nil

11. Warrants

	Number of warrants	Amount \$	Weighted average exercise price
Balance – March 31, 2015	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
Unit private placement (Note 10)	1,350,000	26,100	0.25
Expired	(825,000)	(93,000)	(0.25)
Balance – September 30, 2015	19,561,352	1,229,708	\$ 0.25

As at September 30, 2015, the Company had 19,561,352 warrants outstanding and exercisable at a weighted average exercise price of \$0.25 per share with a weighted average life remaining of 2.1 years.

12. Stock options

As at 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. In September 2015, 95,000 expired. As at September 30, 2015, the Company had 80,000 stock options outstanding and exercisable at a weighted average exercise price of \$1.00 per share and a weighted average life remaining of 0.42 years.

(Expressed in Canadian dollars)

13. Per share amounts

	Three months ended September 30		Six months ended September 30	
	2015	2014	**2015**	2014
	$	$	**$**	$
Net loss	(868,697)	(456,928)	(1,216,712)	(1,211,885)
Weighted average number of shares – basic:				
Issued common shares as at April 1	29,292,081	11,252,039	29,292,081	11,252,039
Effect of common shares issued during the period	352,174	8,826,130	177,049	6,063,798
	29,644,255	20,078,169	29,469,130	17,315,837
Net loss per share – basic and diluted [1]	(0.03)	(0.02)	(0.04)	(0.07)

[1] The Company did not have any in-the-money convertible notes, warrants and stock options during the three and six months ended September 30, 2015 and 2014. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

14. Finance expense

	Three months ended September 30		Six months ended September 30	
	2015	2014	**2015**	2014
	$	$	**$**	$
Interest expense	151,789	106,935	243,915	222,571
Accretion of convertible notes (Note 7)	71,552	148,178	107,288	174,432
Accretion of bonds (Note 8)	6,050	–	11,179	–
Accretion of decommissioning obligation (Note 9)	69,949	105,611	140,737	208,909
	299,340	360,724	503,119	605,912

15. 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:

	Three months ended September 30		Six months ended September 30	
	2015	2014	**2015**	2014
	$	$	**$**	$
Operating	315,329	271,133	510,780	489,329
General and administrative	85,311	55,636	247,184	291,928
Total employee compensation cost	400,640	326,769	757,964	781,257

(Expressed in Canadian dollars)

16. Change in non-cash working capital

For the six months ended September 30		2015		2014
Trade and other receivables	$	(159,323)	$	66,913
Inventory		(146,989)		5,749
Prepaid expenses		(117,996)		(127)
Prepaid property and equipment insurance		98,291		–
Trade and other payables		40,688		(101,681)
Total change in non-cash working capital	$	(285,329)	$	(29,146)

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

		2015		2014
Operating	$	(309,519)	$	(81,798)
Financing		(30,660)		–
Investing		54,850		52,652
Total change in non-cash working capital	$	(285,329)	$	(29,146)

17. Related party transactions

a) Included in general and administrative expenses for the three and six months ended September 30, 2015 is $55,449 and $112,743 (three and six months ended September 30, 2014 – $64,237 and $132,296), respectively, charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at September 30, 2015, $nil (March 31, 2015 – $nil) was included in trade and other payables in respect of these charges.

b) Included in trade and other payables is $37,896 (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.

18. 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 amount cash of $522,371 (March 31, 2015 – $936,499) and trade and other receivables of $920,227 (March 31, 2015 – $713,031).

(Expressed in Canadian dollars)

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

		September 30 2015		March 31 2015
Oil and natural gas sales	$	526,415	$	383,067
Stamp tax and other tax withholdings		275,418		234,394
Goods and services tax		9,390		16,964
Other		109,004		78,606
	$	920,227	$	713,031

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

The Company considers its receivables to be aged as follows:

		September 30 2015		March 31 2015
Current	$	613,990	$	443,999
90 + days		306,237		269,032
	$	920,227	$	713,031

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 September 30, 2015, the Company had $6,179,800 (March 31, 2015 – $5,606,441) of current liabilities for which the Company's $522,371 (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 September 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 September 30 2016	Due on or before September 30 2017	Due between April 2018 and August 2020
Trade and other payables	$	2,315,379	2,315,379	2,315,379	–	–
Oil share agreement		1,061,092	1,061,092	1,061,092	–	–
Loans payable		3,065,477	3,375,634	3,075,971	78,173	221,490
Convertible notes		492,264	947,923	76,679	871,244	–
Bonds payable		526,186	769,284	70,643	70,451	628,190
	$	7,460,398	8,469,312	6,599,764	1,019,868	849,680

(Expressed in Canadian dollars)

c) Market risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect 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	
	September 30	March 31	Six months ended September 30	
	2015	2015	2015	2014
Argentine Peso	0.1422	0.1438	0.1394	0.1333
US dollar	1.3395	1.2683	1.2693	1.0895
Euro	1.4951	1.3623	1.4080	1.4688
Swiss Franc	1.3342	1.3057	1.3312	1.2117
British Pound	1.9614	1.8834	1.9561	1.8262

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at September 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 six months ended September 30	2015	2014
Argentine Peso	$ 50,603	$ (15,595)
US dollar	285,190	258,050
Euro	(8,587)	(21,955)
Swiss Franc	113,570	145,870
British Pound	55,280	–
	$ 496,056	$ 366,370

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 September 30, 2015, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the six months ended September 30, 2015 of approximately $16,600 (2014 – $25,600).

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 September 30, 2015, a 5% change in the price of oil would represent a change in the net loss for the six months ended September 30, 2015 of approximately $54,600 (2014 – $83,900).

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 loans payable (Note 6), convertible notes (Note 7) and bonds payable (Note 8) and therefore is not exposed to interest rate risk.

19. Subsequent events

(a) On October 1, 2015, the Company acquired a co-generation plant from a third party for €470,000 (CAD$702,697), of which €401,148 (CAD$599,756) was financed in the form of a loan payable to the seller. The loan payable is secured by the co-generation plant and bears interest at 3.5% per annum and is repayable in 30 monthly payments of principal and interest until March 31, 2018.

(b) On November 13, 2015, the Company secured a £20,000,000 (CAD$40,250,000) unsecured loan facility (the "Loan") for general corporate purposes with a Cayman Islands based Fund (the "Lender"). The Loan can be drawn by written notice given by the Company. Subject to a satisfaction of certain conditions precedent and the approval of the Lender, a minimum sum of £100,000 and up to a maximum sum of £2,000,000 for each tranche can be drawn at any time from the date of the Loan agreement for a period of 18 months after such date. The Loan accrues interest at the rate of 12% per annum on the amount drawn and is payable quarterly in arrears. Each outstanding draw down is repayable on the third anniversary of the first draw down date. The Company may prepay the loan, in whole or in part, at any time and without penalty. A one-time fee of £25,000 is payable in cash or by issuing the Lender common shares of the Company. The transaction is subject to regulatory approval, including the approval of the TSX Venture Exchange.

(c) On November 27, 2015, the Company completed the private placement of 4,214,125 units at $0.08 per unit for gross proceeds of $ 337,130. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at $0.25 per share for a period of 36 months from the date of issuance.

20. 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.

(Expressed in Canadian dollars)

		September 30, 2015				March 31, 2015			
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Property and equipment	$	2,222,313	15,190,510	-	17,412,823	2,250,254	14,443,268	-	16,693,522
Other assets	$	637,466	1,385,553	321,603	2,344,622	930,904	1,120,668	503,161	2,554,733
Total liabilities	$	4,877,198	5,768,696	4,934,666	15,580,560	5,184,303	5,468,607	4,306,257	14,959,167
Total capital expenditures	$	(206,309)	(53,208)	-	(259,517)	(929,624)	(240,976)	-	(1,170,600)

		Three months ended September 30							
		2015	2014	2015	2014	2015	2014	2015	2014
		Argentina		Italy		Other		Total	
Revenue	$	396,459	738,300	164,102	303,891	-	-	560,561	1,042,191
Royalties		35,565	76,452	-	-	-	-	35,565	76,452
Operating and transportation		342,908	413,726	147,127	105,086	-	-	490,035	518,812
General and administrative		155,657	154,195	95,521	143,411	398,023	229,186	649,201	526,792
Depletion and depreciation		20,526	94,345	72,437	94,098	-	-	92,963	188,443
Finance and other expenses		5,419	122,324	31,404	6,277	124,671	60,019	161,494	188,620
Segment income (loss)	$	(163,616)	(122,742)	(182,387)	(44,981)	(522,694)	(289,205)	(868,697)	(456,928)

		Six months ended September 30							
		2015	2014	2015	2014	2015	2014	2015	2014
		Argentina		Italy		Other		Total	
Revenue	$	1,200,036	1,675,693	331,874	560,446	-	-	1,531,910	2,236,139
Royalties		107,887	153,437	-	-	-	-	107,887	153,437
Operating and transportation		669,835	827,950	196,984	234,126	-	-	866,819	1,062,076
General and administrative		410,263	305,686	201,090	243,532	729,410	740,387	1,340,763	1,289,605
Depletion and depreciation		56,879	199,098	136,725	185,932	-	-	193,604	385,030
Finance and other (income) expenses		(71,170)	306,519	36,406	13,079	274,313	238,278	239,549	557,876
Segment income (loss)	$	26,342	(116,997)	(239,331)	(116,223)	(1,003,723)	(978,665)	(1,216,712)	(1,211,885)