



**UNAUDITED INTERIM FINANCIAL INFORMATION FOR SIX MONTHS ENDED
SEPTEMBER 30, 2018 AND COMPARATIVE PERIOD (SEPTEMBER 30, 2017).**

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 six months ended September 30, 2018.

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**") as at and for the six months ended September 30, 2018 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

November 14, 2018

Calgary, Alberta

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COMPANY INFORMATION

Directors

Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)
Andrea Cattaneo (President, CEO and Director)
Luigi Regis Milano (Executive Director)
Dario E. Sodero (Non-Executive Director)
Saadallah Al-Fathy (Non-Executive Director)
Erik Larre (Non-Executive Director)
Sergey Borovskiy (Non-Executive Director)

Registered Office

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Registered Office

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Registered Corporation Number

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Website

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Corporate Brokers

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Optiva Securities Limited
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London W1J 5AZ, United Kingdom

Financial Adviser

Allenby Capital Limited
3 St. Helen's Place
London EC3A 6AB, United Kingdom

PR Adviser

Vigo Communications
Sackville House
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London W1J 0DR, United Kingdom

COMPANY INFORMATION (CONTINUED)

Independent auditor

PKF Littlejohn LLP
1 Westferry Circus Canary Wharf
London, E14 4HD, United Kingdom

Principal Bankers

Canadian Western Bank
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Calgary AB T2P 1T1

Barclays Bank PLC
Priory Place, Level 3 New London Road
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CENTTRIP LIMITED
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Competent Person

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1122 4th Street S.W., Suite 700
Calgary Alberta T2R 1M1, Canada

Depository and Registrar

Computershare Investor Services Plc
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Bristol, BS99 6ZZ, United Kingdom

Computershare Trust Company of Canada
100 University Avenue, 8th Floor
Toronto, ON M5J 2Y1, Canada

HIGHLIGHTS

Highlights for the six months ended September 30, 2018 include the following:

- a) The Group generated revenues from oil and natural gas of CAD\$3,803 (2017 – CAD\$2,465) and from electricity CAD\$321k (2017 – CAD\$317) in the six months ended September 30, 2018 representing an increase of 12.8% in revenues than the corresponding period of 2017.
- b) During the three and six months ended September 30, 2018 the Company produced 22,133 and 45,523 bbls of oil from its assets in Azerbaijan, as compared to 23,095 and 47,954 bbls of oil produced in the 2017 similar period.
- c) During the three and six months ended September 30, 2018 the Company sold 18,813 and 38,695 bbls of oil from its assets in Azerbaijan, as compared to 19,292 and 42,682 bbls of oil sold in the 2017 similar period.
- d) At the end of September 2018, there were 140 bbls of unsold oil production in Azerbaijan held in inventory which were sold in subsequent months.
- e) During three and six months ended September 30, 2018, the Company sold 2,641 and 3,978 mcf of natural gas from its Italian assets, as compared to 4,831 and 9,621 mcf of natural gas in the 2017 similar period.
- f) During the three and six months ended September 30, 2018, the Company sold 182 and 610 bbls of condensate from its Italian assets, as compared to 264 and 488 bbls of condensate in the 2017 similar period.
- g) During the three and six months ended September 30, 2018, the Company sold 1,883 and 4,566 MWh of electricity from its Italian electricity production assets, as compared to 2,741 and 5,263 MWh for the corresponding period of 2017.
- h) On 16 July 2018, the Company announced that the due diligence report of the Proposed Acquisition's financial statements of the entity in Indonesia uncovered certain discrepancies. Management visited Indonesia during July 2018 to undertake further pricing negotiations with the ultimate vendor of the Proposed Acquisition based on the findings of the due diligence report. However, the ultimate vendor decided not to accept the Company's proposal.

Zenith's Board of Directors has therefore agreed not to proceed with the completion of the Proposed Acquisition due to the vendor's refusal to renegotiate the total consideration. As aforementioned, the accounting due diligence process evidenced negative discrepancies largely exceeding 5% of the book values declared in the Proposed Acquisition's financial statements dated February 28, 2018.

In addition, the vendor and Zenith take different views regarding the return of the deposit advanced by Andrea Cattaneo, Chief Executive Officer & President of the Company, in good faith and support of the Proposed Acquisition. Zenith and Andrea Cattaneo consider the retention of the deposit by the vendor to be contrary to the mutually agreed terms and the parties' intentions.

- i) On August 13, 2018, the Company completed two comprehensive geological studies to optimise the selection of potential drilling locations and workover opportunities across the Muradkhanli, Jafarli and Zardab oilfields. The studies have provided a significantly enhanced understanding of the hydrocarbon production of the Company's operations in Azerbaijan which will have a direct influence in shaping the Company's operational activities going forward.

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- j) On September 5, 2018, the Company's fully owned subsidiary, Zena Drilling Limited, signed a purchase agreement for the acquisition of a BD-260 drilling rig assembled by B Robotics W S.r.l., for a total consideration of €2,250,200. The agreement supersedes the six-month rental agreement Zena had signed with Robotics for the BD-260 drilling rig dated June 6, 2018. In addition, Robotics confirmed it will provide its highly experienced drilling personnel for a minimum of 6 months as part of the aforementioned agreement. Moreover it is formalising a tender process in Azerbaijan for the leasing of a 180-ton truck-mounted workover and drilling rig for a period of four months.
- k) On September 5, 2018, the Company announced that it had entered into a US\$1,500,000 unsecured convertible loan facility (the "Facility") with a term of 18 months starting from August 30, 2018. Zenith shall pay interest on the outstanding amount of the Facility 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 (the "**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 Facility.
- l) During the six months ended September 30, 2018, the Company incurred CAD\$4,467k of General and Administrative Expenses. In these costs are included CAD\$1,019k for share based payments (non-cash items), relating to the granting of share options, CAD\$109k for the yearly audit fees, CAD\$360k for non-recurrent costs relating to listing costs and CAD\$64k for non-recurrent costs incurred in negotiations for proposed acquisitions.

	Six months ended September 30, 2018 CAD\$'000
Professional fees	483
Audit fees (yearly cost)	109
Listing costs (non-recurrent)	360
Accounting and bookkeeping	41
Negotiations for acquisitions (non-recurrent)	64
Legal	112
Office	206
Bank commissions	34
Insurances	69
Foreign exchange	23
Other administrative expenses	585
Salaries	874
Travel	488
Share based payments (non-cash item)	1,019
Total General and Administrative Expenses	4,467

POST-PERIOD HIGHLIGHTS

- a) On October 2, 2018, the Company's Chief Executive Officer & President, Mr. Andrea Cattaneo advised the Company that he had 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's salary as at October 1, 2018.
- b) On October 10, 2018 ARC Ratings, SA. ("**ARC Ratings**") assigned the Company a medium to long-term issuer credit rating of "B+" with Positive Outlook.
- c) On October 22, 2018, the Company announced that additional geological and reservoir investigations had enabled the Company to identify a new structure in the Middle Eocene and Upper Cretaceous formations of the Jafarli field.
- d) On November 7, 2018 the Company announced that it had received approval for admission to trading of its entire common share capital on the Merkur Market of the Oslo Børs (the "**Merkur Market**"). The Merkur Market is a multilateral trading facility owned and operated by the Oslo Børs. In addition, 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 7,273,850 (approximately £668,300 or CAD\$1,141,600) 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). No Insider/Person Discharging Managerial Responsibility subscribed for Placement Shares. Following issuance of the Placement Shares, the Company will have a total of 237,102, 587 Common Shares in issue. 237,102,587 Common Shares will be admitted to trading on the Merkur Market and listed on the TSX Venture Exchange in Canada. The Company announced that an application for the Placement Shares to be listed on the standard segment of the UK Official List and to be admitted to trading to the Main Market of the London Stock Exchange will be made within 12 months of the issue of the Placement Shares; the number of Common Shares listed on the standard segment of the UK Official List and to be admitted to trading to the Main Market of the London Stock Exchange remains at 216,320,158.
- e) On November 12, 2018, the Company announced that it had successfully completed a private placement on the Merkur Market of the Oslo Børs with Norwegian investors raising gross proceeds of NOK 1,000,000 (approximately £91,700 or CAD\$157,0000) through the placement of 2,857,143 common shares of no par value (the "**Placement Shares**") at a subscription price of NOK 0.35 per Placement Share (approximately £0.032 or CAD\$0.055).

CEO STATEMENT

Zenith Energy Ltd. (“**Zenith**” or “the **Group**”) is an international oil and gas production Group, incorporated in Canada, listed on the London Stock Exchange (ZEN) and the TSX Venture Exchange (ZEE). In addition, on November 8, 2018, the Company’s entire common share capital was admitted to trading on the Merkur Market of the Oslo Børs (ZENA-ME).

Zenith’s strategy is defined by its focus on the acquisition and further development of proven onshore oil and gas fields from which production has declined over time, but where significant untapped reserves remain in place, and new investment in field infrastructure, the application of modern production technology, and new management supervision can achieve highly significant increases in production. To maximise shareholder value, Zenith specifically targets acquisitions of production opportunities that have strong logistical support and are in the proximity to refineries and pipelines. Zenith's management and directors possess the technical knowledge to execute this strategy through their extensive financial and government experience.

The Group operates the largest onshore oilfield in Azerbaijan by cumulative acreage through its fully owned subsidiary, Zenith Aran Oil Company Limited, with an average daily production of 300 bopd and independently assessed proven + probable (2P) reserves of 31.7 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 16.4 BCF. Zenith’s Italian operations also include the production of electricity and condensate.

Azerbaijan represents an unprecedented opportunity for energy development and the Board of Directors is fully committed to the successful long-term development of this large, potentially transformational asset. The Group is seeking to demonstrate its strengths as an operator in one of world’s largest and most-storied oil and gas countries by concentrating its efforts towards systematically increasing daily production of oil from the Muradkhanli, Zardab and Jafarli oilfields.

The results for the period ended September 30, 2018 show an increase in the daily production of oil in Azerbaijan. Zenith is gradually beginning to overcome the challenges encountered during the early stages of the development of its Azeri asset, specifically the complex geology of the field and the poor condition of many of our wells. Management is expecting to continue this trend robustly throughout the remainder of the financial year.

The Company has recently announced the appointment of a highly experienced new workover manager and senior reservoir engineer, the leasing of a 2,000hp automated hydraulic rig, the signing of a purchase agreement for a 1,200hp drilling rig, and the purchase of a new workover rig manufactured in Azerbaijan. The arrival of this equipment, the largest and most advanced to be deployed in the field, combined with the appointment of new operational management, will be a determining factor in the Company’s successful execution of its operational objectives.

At the same time, our understanding of the field and its complex geology has been greatly enriched following the completion of two comprehensive geological studies; the first concentrating on the Muradkhanli and Jafarli oilfields; the second on the undeveloped Zardab oilfield. This has given us an increased understanding of our production reservoirs and has allowed us to refine our technical response to the complex geology of the field and discrepancies in well data previously encountered in our operations. These developments position Zenith to bring some of its very sizeable reserves into production during the upcoming months.

The Group has updated the competent persons report (“**CPR**”) as at March 31, 2018. The revised CPR formed part of the Directors impairment assessment of the Azeri asset as at March 31, 2018 following which no impairment has been recorded in the financial statements for the year ended March 31, 2018.

CEO STATEMENT (CONTINUED)

The potential and vast untapped value of the Company's portfolio remains unchanged since listing on the London Stock Exchange. The size of our reserves, and our existing oil & gas production activities generating significant revenue each month, distinguish us from many listed companies of our size and makes us particularly attractive.

It is also noteworthy that this set of quarterly results registers the highest net revenue the Company has generated since its incorporation. This is an extremely positive milestone which has been made possible by the recent resurgence in oil prices and our existing production activities in Azerbaijan. We shall build upon this milestone with the intention of maximising our oil production via systematic workover and drilling operations during the period ahead.

I take the opportunity to also comment on the Company's recent admission to trading on the Merkur Market of the Oslo Børs which the Board of Directors believes will strongly complement Zenith's full listings on the LSE and TSX Venture Exchange. It is our belief that the Merkur Market will provide the Company an additional opportunity for the creation of value for its equity in the Norwegian market which is known to have a very good understanding and appreciation for energy projects.

A further positive development which should be highlighted is the Company's assigning of a medium to long-term issuer credit rating of "B+" with Positive Outlook by Arc Ratings S.A. on October 8, 2018. This is an important achievement, especially as very few companies of Zenith's size are rated. The Board of Directors expects this to facilitate the Company's possible securing of debt financing to support its expansion. Debt financing is a non-equity-based funding strategy which, amongst other benefits, avoids shareholder dilution.

I thank Zenith shareholders for their continued support. As is clear, I remain firmly confident that we shall be able to achieve concrete operational success through our planned drilling and workover programme during the period ahead. Operationally, we have been through a valuable learning curve which, despite the underwhelming results, has enriched our understanding of our Azerbaijan asset and enabled the Company to effectively reassess how to best achieve material increases in production from its significant reserves as it prepares to implement a systematic drilling programme during 2019.

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

Andrea Cattaneo
Chief Executive Officer & President, Director

November 14, 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended	
		30 September 2018	30 September 2017
		CAD\$'000	CAD\$'000
Continuing operations			
Revenue	21	4,124	2,782
Cost of sales			
Production costs		(1,763)	(1,490)
Depletion and depreciation	7	(786)	(609)
Gross profit		1,575	683
Administrative expenses		(4,478)	(157)
Operating (loss) / profit		(2,903)	526
Net Interest expenses	5	(373)	53
(Loss)/profit for the period before taxation		(3,276)	579
Taxation	6	(1)	-
(Loss)/profit for the period		(3,277)	579
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		(506)	(158)
Total comprehensive income for the period attributable to owners of the parent		(3,783)	421

	Note	Six months ended	
		30 September 2018	30 September 2017
		CAD\$	CAD\$
Earnings per share			
Basic from (loss) / profit for the period	17	0.02	0.01
Diluted from (loss) / profit for the period		0.01	0.01
From continuing operations – basic		0.02	0.01
From continuing operations – diluted		0.01	0.01

The notes on pages 15 to 48 form part of the Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	Six months ended	
		30 September 2018	30 September 2017
		CAD\$'000	CAD\$'000
Non-current assets			
Property, plant and equipment	7	1,075,622	1,073,436
Capitalised expenses		-	2,210
Other financial assets	8	416	430
		1,076,038	1,076,076
Current assets			
Inventory	9	164	208
Trade and other receivables		3,230	1,382
Cash and cash equivalents		4,197	2,393
		7,591	3,983
TOTAL ASSETS		1,083,629	1,080,059
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	11	26,479	18,587
Share warrants & option reserve	12	1,655	1,633
Contributed surplus		3,629	2,232
Retained earnings		541,054	554,430
Total equity		572,817	576,882
Non-current liabilities			
Borrowing	13	947	2,380
Non-convertible bond	14	-	385
Deferred consideration payable	15	482,963	484,034
Decommissioning provision	16	8,676	7,980
Deferred tax liabilities		2,398	2,398
Total non-current liabilities		494,984	497,177
Current Liabilities			
Trade and other payables		10,588	2,720
Borrowings	13	4,011	2,840
Non-convertible bond	14	385	-
Deferred consideration payable	15	844	440
Total current liabilities		15,828	6,000
TOTAL EQUITY AND LIABILITIES		1,083,629	1,080,059

Approved by the Board dated on 14 November 2018

Signed "Jose Ramon Lopez Portillo"

Jose Ramon Lopez-Portillo Chairman

The notes on pages 15 to 48 form part of the Financial Statements

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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, 2017	17,229	1,877	2,332	554,009
Income/(loss)	-	-	-	421	421
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	421	421
Share issue net of costs - private placement	-	-	-	-	-
Share issue - exercise of options	1,358	(224)	(100)	-	1,034
Expired options	-	(20)	-	-	(20)
Total transactions with owners recognised directly in equity	1,358	(244)	(100)	-	1,014
Balance as at 30 September 2017	18,587	1,633	2,232	554,430	576,882

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
Loss for the period	-	-	-	(3,277)	(3,277)
Other comprehensive income	-	-	-	(506)	(506)
Total comprehensive income	-	-	-	(3,783)	(3,783)
Share issue net of costs - private placement	3,687	-	-	-	3,687
Value of warrants issued	-	48	-	-	48
Issue of options	-	971	-	-	971
Fair value of options exercised	-	-	-	-	-
Warrants expired	-	(239)	239	-	-
Total transactions with owners recognised directly in equity	3,687	780	239	-	4,706
Balance as at September 30, 2018	26,479	1,655	3,629	541,054	572,817

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
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

The notes on pages 15 to 48 form part of the Financial Statements

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CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended	
		September 30, 2018	September 30, 2017
		CAD\$'000	CAD\$'000
OPERATING ACTIVITIES	Note		
(Loss)/profit for the period before taxation		(3,276)	579
Shares issued for service		1,019	15
Foreign exchange		(8,415)	34
Depletion and depreciation	7	786	609
Capitalization of expenses		-	(2,419)
Finance expense	5	373	(53)
Change in working capital	10	7,915	(393)
Net cash outflows from operating activities		(1,598)	(1,628)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7	(361)	(931)
Disposal of property, plant and equipment	7	162	-
Net cash inflows from investing activities		(199)	(931)
FINANCING ACTIVITIES			
Proceeds from issue of shares, net of transaction costs		3,687	1,258
Proceeds from exercise of option		-	100
Repayments of loans	13	(124)	(330)
Proceeds from loans	13	38	-
Net cash flows generated from financing activities		3,601	1,028
Net increase/(decrease) in cash and cash equivalents		1,804	(1,531)
Foreign exchange effect on cash held in foreign currencies		-	-
Cash and cash equivalents at beginning of period		2,393	3,924
Cash and cash equivalents at end of period		4,197	2,393

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Notes to the financial statements

1. Corporate and Group information

The consolidated Financial Statements of Zenith Energy Ltd. and its subsidiaries (collectively, the “Group”) has been prepared on the basis set out below.

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. V6C 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 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 adopted by the EU and IFRS as issued by the 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; Argentine Pesos (“ARS”) for the Argentinian subsidiary (disposed of in February 2017), United States (“US\$”) dollars for the subsidiaries in the US (disposed of in February 2017), 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 of the transactions that are not in the functional currency are treated as foreign and indicate currency transactions.

Going concern

These 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. In accordance with the terms of the Rehabilitation, Exploration, Development and Production Sharing Agreement (“REDPSA”) with the State Oil Company of the Republic of Azerbaijan (“SOCAR”), the Group has an obligation to achieve certain production levels within two years from the date of SOCAR’s approval of the Rehabilitation and Production Programme. The Group is required to increase production levels from the 2015 average daily production of approximately 310 STB per day by 1.5 times for a period of 90 consecutive days, that is 465 STB per day. Failure to meet the required production levels would result in a material breach of the REDPSA and may result in the termination of the REDPSA and any costs incurred by the Group with respect to the contract area since inception would not be recoverable.

A draft Rehabilitation and Production Programme was submitted to SOCAR on 16 March 2017 and approved on 3 October 2017. The Group is currently operating at an average of 300 STB per day and therefore has not reached the required production. The Directors believe that the future planned well workovers and drilling programme will allow the Group to reach the required level of production in the future.

The Directors, having made due and careful enquiry, are of the opinion that the Group has adequate working capital to execute its operations over the next 12 months. In forming this opinion the Directors have considered the cash flow forecasts prepared by management and fund raises completed post year end. The cashflow forecasts 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. In order to operate at the levels of production stated in the competent persons report (“CPR”) the Group will need to raise additional funding to meet the capital expenditure required.

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 has 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 not yet adopted

a. Adoption of new and revised standards

The following IFRSs or IFRIC interpretations were effective for the first time for the financial year beginning April 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

standard / interpretation	
IFRS 9	Financial Instruments
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

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

At the date of authorisation 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 16	Leases	1 January 2019
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	1 January 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:

<i>Name</i>	<i>Country of incorporation and place of business</i>	<i>Proportion of ownership interest</i>	<i>Principal activity</i>
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%	Not trading
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

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- (1) Zenith Energy Ltd. has 100% control over Canoe 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) Zena is a 100% beneficially owned subsidiary of the Company. Zena was incorporated by Andrea Cattaneo as a fiduciary service for the Company and the shares in Zena are currently registered in the name of Mr. Andrea Cattaneo as trustee for the Company. The process of transferring the shares to the name of the Company is underway but is not expected to complete until later in December 2018. The Directors consider that despite the legal ownership, the Group controls Zena by virtue of the following:
- The management and employees of Zenith Energy Limited direct the relevant activities of Zena;
 - Zena has a registered branch in Azerbaijan in which the state recognises Zenith Energy Ltd as the owner; and
 - Zena's sole purpose is as a service company of the Group and therefore the Group has the ability to use its power to affect the returns of Zena.

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.

The following entities have not been consolidated within the Group's financial statements:

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

Business combinations

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement.

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Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, a bargain purchase gain is recognised immediately in the consolidated statement of comprehensive income.

Transaction costs that are incurred in connection with a business combination other than those associated with the issue of debt or equity instruments are expensed as incurred.

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

Property, plant and equipment

Development and production expenditures

Development and production (“D&P”) assets include costs incurred in developing commercial reserves and bringing them into production, together with the exploration and evaluation (“E&E”) expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets, the projected cost of retiring the assets and any directly attributable general and administrative expenses. 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 an item of property and equipment, including D&P assets, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment, including D&P assets, are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognised 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 recognised only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognised in profit or loss when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognised. The costs of day-to-day servicing of an item of property and equipment are recognised 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.

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If any such indication of impairment exists, the Group makes an estimate of its recoverable amount. A CGU's 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 recognised 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 recognised for the asset or CGU in prior periods.

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

Decommissioning provision

The Group recognises 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 recognised as finance costs. 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 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 realisable 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 realisable 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

Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Trade and other receivables, trade and other payables, loans and notes payable are measured at amortised cost using the effective interest method, less any impairment losses. The carrying amount of these financial instruments approximates fair value due to their short-term to maturity.

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 recognised 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 recognised 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 amortised 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 recognised. 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.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the consolidated statement of comprehensive income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the consolidated statement of comprehensive income.

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 19 (b).

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 recognised 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 recognised in the consolidated income statement as a financial expense.

Incremental costs directly attributable to the issue of common shares are recognised 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 is 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 data 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 recognition

Revenue represents the sale value of the Group share of oil, gas, condensate and electricity and is recognised when the significant risks and rewards of ownership have passed to the buyer, which is typically at the point that the service and revenue can be reliably measured.

Revenues are recognised when title and risks pass to the purchaser or when services are rendered, and in particular:

- The oil sale is recognised when it is delivered through the pipeline;
- The gas sale is recognised when the production passes through the grid, after being measured by the fiscal measurer;
- The condensate sale is recognised when the production is delivered to the customer;
- The electricity sale is recognised when it is generated and passed through to the grid.

Foreign currency translation

Foreign currency transactions are translated into the respective functional currencies of the Company 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 recognised 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:

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- 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 recognised 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 recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised 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 realisation 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 recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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 sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised 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:

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 7. The carrying value of property, plant and equipment as at 30 September 2018 was CAD\$1,075,622k (2017 – CAD\$1,073,436k). 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 recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated taking into account 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's Person Report ("CPR") and the latest version was published on the Company's website (www.zenithenergy.ca) on 21 May 2018. 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 has 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).

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 16. The carrying value of the decommissioning costs as at 30 September 2018 is CAD \$8,676k (2017 – CAD\$7,980k).

Consolidation of Zena Drilling Limited (“Zena”)

Zena was incorporated by Mr. Andrea Cattaneo as a fiduciary service for the Company and the shares in Zena are currently registered in the name of Mr. Andrea Cattaneo in the capacity of trustee for the Company. Due to the lengthy incorporation process in RAKFTZ, this was the most effective method of establishment. Further, because the UAE is not a signatory of The Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents, the process of transferring legal ownership to Zenith has entered the final stage and is expected to be completed before the close of 2018. The financial statements of the Group include the assets, liabilities, and results of Zena because the Directors consider the Group to effectively control the operations and assets of the entity.

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5. Finance expense

	Six months ended September 30,	
	2018	2017
	CAD\$'000	CAD\$'000
Interest expense	(373)	(247)
Accretion of decommissioning obligation	-	-
Foreign exchange differences	-	300
Net finance expense from continuing operations	(373)	53

6. Taxation

	Six months ended September 30,	
	2018	2017
	CAD\$'000	CAD\$'000
Current tax	1	-
Deferred tax	-	-
Total tax charge / (credit) for the period	1	-

The tax charge for the period ended September 30, 2018 comprised CAD\$1 (2017 – CAD\$Nil) of current tax expense and CAD \$Nil deferred tax (2017 – CAD \$Nil deferred tax).

As at September 30, 2018, the Group has accumulated non-capital losses in Canada totaling CAD\$22,327k (2017 - CAD\$18,198k) which expire in varying amounts between 2028 and 2037, CAD\$578k (2017 – CAD \$400k) of non-capital losses in Italy, CAD\$4,964k (2017 – CAD\$nil) of non-capital losses in Azerbaijan and CAD\$54k (2017 – CAD\$nil) of non-capital losses in Switzerland.

7. Property, plant and equipment

	D&P Assets CAD \$'000
Carrying amount at April 1, 2017	1,072,993
Additions	931
Disposals	-
Depletion and depreciation	(488)
Decommissioning obligation	-
Foreign exchange differences	-
Carrying amount at September 30, 2017	1,073,436
Carrying amount at April 1, 2018	1,077,445
Additions	361
Disposals	(162)
Depletion and depreciation	(786)
Compensatory oil delivered	(176)
Foreign exchange differences	(1,060)
Carrying amount at September 30, 2018	1,075,622

The assets acquired in the business combination were acquired in conjunction with capital commitments represented by the deferred consideration payable. The details of these capital commitments are included within the 'Capital costs' section of note 15.

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As at September 30, 2018 and 2017, 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 30 September 2018 and 2017 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% (2017 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at 31 March 2018 and 2017. The estimated recoverable amount of the Italian CGU at 31 March 2018 was higher than its carrying amount, therefore, no impairment was recognized in the six months ended 30 September 2018 (2017 – 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% (2017 – 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 at 30 September 2018 was higher than its carrying amount, therefore, no impairment was recognised in the Six months ended 30 September 2018 (2017 - 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.

8. Other financial assets

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 (2017 – CAD\$nil) has been recognised as an expense. The outstanding balance of CAD\$416k (2017 - CAD\$430k) 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.

9. Inventory

As at September 30, 2018, inventory consists of CAD\$6 (2017 – CAD\$88k) of crude oil that has been produced but not yet sold, and CAD \$153k of materials (2017 – CAD \$120k) . The amount of inventory recognised in the statement of comprehensive loss is CAD \$13k.

	September 30 2018		September 30 2017	
	Barrels	CAD\$'000	Barrels	CAD\$'000
Azerbaijan	140	6	2,588	88
Azerbaijan - materials	-	153	-	120
Italy	-	5	-	-
	-	164	2,588	208

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10. Change in working capital, for the six months ended 30 September:

	2018	2017
	CAD \$'000	CAD \$'000
Trade and other receivables	(424)	(318)
Inventory	(44)	70
Prepaid expenses	62	28
Prepaid property and equipment insurance	(14)	39
Trade and other payables	(7,495)	(212)
Total change in working capital	(7,915)	(393)

11. Share Capital

Zenith is authorised to issue an unlimited number of Common Shares, of which 55,296,059 were issued at no par value during the six months ended September 30, 2018 resulting in Total Common Shares in issue: 214,094,757 (September 30, 2017 – Total Common Shares in issue: 129,174,277). All Common Shares have the right to vote and the right to receive dividends. Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of this Document. The Directors of the Company may by resolution fix the rights, privileges, restrictions and conditions of the preferred shares of each series.

The Group's ordinary shares are all fully paid and have not been allocated a par value.

Issued	Number of common shares	Amount CAD\$'000
Balance – 31 March 2017	115,577,230	17,229
Exercise of stock option (i)	1,000,000	-
Exercise of warrants (ii)	1,019,250	153
Balance – 30 June 2017	117,596,480	17,382
Non-brokered unit private placement (iii)	3,533,333	438
Finder's fee	-	(22)
Non-brokered unit private placement (iv)	2,666,667	328
Finder's fee	-	(16)
Non-brokered unit private placement (v)	666,666	82
Finder's fee	-	(4)
Non-brokered unit private placement (vi)	3,600,000	404
Finder's fee	-	(20)
Exercise of stock option (vii)	1,000,000	100
Settlement of debt (viii)	111,131	17
Balance – 30 September 2017	129,174,277	18,689
Exercise of warrants (ix)	2,049,775	307
Exercise of warrants (x)	1,257,875	189
Exercise of warrants (xi)	1,306,050	261
Exercise of warrants (xii)	500,000	75
Exercise of warrants (xiii)	1,612,142	322
Exercise of warrants (xiv)	3,150,000	473
Exercise of stock option (xv)	2,000,000	200
Exercise of warrants (xvi)	400,000	80

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Exercise of stock option (xvii)	1,000,000	150
Exercise of stock option (xviii)	1,650,000	202
Exercise of warrants (xviii)	100,000	20
Balance – 31 December 2017	144,200,119	20,968
Non-brokered unit private placement (xix)	4,000,000	500
Non-brokered unit private placement (xx)	9,000,000	1,158
Finder's fee	-	(58)
Settlement of debt (xxi)	1,598,579	224
Balance – 31 March 2018	158,798,698	22,792
Settlement of debt (xxii)	1,123,608	185
Non-brokered unit private placement (xxiii)	54,172,451	3,694
Finder's fee	-	(187)
Balance – 30 June 2018	214,094,757	26,484
Finder's fee	-	(5)
Balance – 30 September 2018	214,094,757	26,479

- i) On May 25, 2017, the Group announced that, following its announcement on February 22, 2017, that a Director of the Group had exercised an option to acquire 1,000,000 new Common Shares in the capital of the Group, the Option Shares have been issued on May 23, 2017, following confirmation by Mr. Regis Milano of the custodian to whom they should be issued.
- ii) On June 29, 2017, an investor in the Group exercised warrants to acquire 1,019,250 new common shares of no par value in the capital of the Group. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received CAD\$153k (approximately £91k).
- iii) On July 14, 2017, the Group closed a non-brokered private placement of 3,533,333 Common Shares at a price of CAD \$0.123956 per unit for aggregate gross proceeds of CAD \$438k (approximately £265k). The Group also paid aggregate finders' fees of CAD\$22k (approximately £13k).
- iv) On August 2, 2017, the Group completed a non-brokered private placement of 2,666,667 Common Shares at a price of CAD \$0.1230606 per unit for aggregate gross proceeds of CAD \$328k (approximately £200k). The Group also paid aggregate finders' fees of CAD\$16k (approximately £10k).
- The proceeds of this Private Placement fund Zenith's acquisition of oil production equipment and provide general working capital.
- v) On August 2, 2017, the Group completed a non-brokered private placement of 666,666 Common Shares at a price of CAD\$0.1230606 per unit for aggregate gross proceeds of CAD \$82k (approximately £50k). The Group also paid aggregate finders' fees of CAD\$4k (approximately £2.5k). The proceeds of this Private Placement fund the Group's acquisition of oil production equipment and provide general working capital
- vi) On September 11, 2017, the Group closed a non-brokered private placement of 3,600,000 Common Shares at a price of CAD\$0.11 per unit for aggregate gross proceeds of CAD\$404k (approximately £252k). The Group also paid aggregate finders' fees of CAD\$20k (approximately £13k).

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The proceeds of this Private Placement were used to fund Zenith's transformational oil production operations in Azerbaijan.

- vii) On September 27, 2017, the Group announced that a Director of Zenith had exercised part of his stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD\$0.10 per Common Share and a total cost of CAD\$100,000 (approximately £60k).
- viii) On September 28, 2017, the Group announced that a Director of the Company, in accordance with TSX Venture Exchange rules, had swapped part of his salary for the first two quarters of the 2018 financial year for the equivalent of CAD\$2.5K per months, for a total of CAD\$15k (approximately £9k). As a result, the Director will receive 111,131 common shares in the capital of the Company at an average price of approximately CAD\$0.14 for the period April 1, 2017 until December 31, 2017.
- ix) On October 12, 2017, an investor in the Company exercised warrants to acquire 2,049,775 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received was CAD\$307k (approximately £186k).
- x) On October 19, 2017, an investor in the Company exercised warrants to acquire 1,257,875 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received was CAD\$189k (approximately £114k).
- xi) On October 23, 2017, an investor in the Company exercised warrants to acquire 1,306,050 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.20 per share, and the total consideration received was CAD\$261k (approximately £160k).
- xii) On November 2, 2017, an investor in the Company exercised warrants to acquire 500,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received was CAD\$75k (approximately £44k).
- xiii) On November 8, 2017, an investor in the Company exercised warrants to acquire 1,612,142 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.20 per share, and the total consideration received CAD\$322k (approximately £195k).
- xiv) On November 22, 2017, an investor in the Company exercised warrants to acquire 3,150,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received CAD\$473k (approximately £284k).
- xv) On November 23, 2017, a Director of the Company exercised stock options to acquire 2,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.10 per share, and the total consideration received CAD\$200k (approximately £118k).
- xvi) On December 11, 2017, an investor in the Company exercised warrants to acquire 400,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.20 per share, and the total consideration received CAD\$80k (approximately £47k).
- xvii) On December 15, 2017, a Director of the Company exercised stock options to acquire 1,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received CAD\$150k

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(approximately £87k).

- xviii) On December 18, 2017, the Company announced that a Director of the Company had exercised stock options to acquire 500,000 new common shares of no par value in the capital of the Company at an exercise price of CAD\$0.10 per stock option (approximately £0.06) at a total cost of CAD\$50,000 (£30k).

The Company also announced that the Chief Financial Officer of the Company had exercised stock options to acquire a total of 1,150,000 new common shares of no par value in the capital of the Company. 400,000 of the new common shares had an exercise price of CAD\$0.10 per new share (approximately £0.0583). The remaining 750,000 new common shares had an exercise price of CAD£0.15 (approximately £0.0874). The total consideration for the Chief Financial Officer's exercise of stock options was CAD\$152,000 (approximately £91k).

The Company also announced on December 18, 2017, that an investor in the Company had exercised warrants to acquire 100,000 new common shares of no par value in the capital of the Company. The exercise price per warrant was CAD\$0.20 per share, and the total consideration received was CAD\$20k (£12k).

- xix) On January 10, 2018, the Company closed a private placement to raise gross proceeds of CAD\$500k (approximately £297k) through the issue of 4,000,000 new common shares of no par value in the capital of the Company at a price of CAD\$0.125 (approximately £0.0742) per new common share with Canadian investors. The proceeds of the private placement have been allocated for the purchase of equipment to develop the Company's oil production operations in Azerbaijan. The Company also paid finder's fees for £3k (approximately CAD\$5k).

- xx) On January 24, 2018, the Company completed a placing in the UK (the "**Placing**") to raise gross proceeds of £678k (approximately CAD\$1,158k) by issuing 9,000,000 common shares of no par value in the capital of the Company (the "**New Common Shares**") at a price of £0.0742 (approximately CAD\$0.1287) per New Common Share. The Company also paid finder's fees for £34k (approximately CAD\$58k) and under the terms of the Placing, the broker was issued 180,000 warrants in the Company, priced at £0.0925, with an expiry date of two years from Admission.

The New Common Shares were offered by the Company's broker to certain investors, principally UK institutions, at the same sterling equivalent price as the Canadian Placing. The Placing garnered considerable interest, with the Company receiving offers for subscription three times in excess of the maximum 9,000,000 New Common Shares that the Company was able to offer to UK investors, in compliance with Standard list regulations.

The Company intends to use the proceeds of the Placing to finance its continued investment in its Azerbaijan field operations and for general working capital.

- xxi) On January 24, 2018, the Company agreed to issue 1,598,579 common shares at a deemed price of CAD\$0.14 to settle a debt of US\$180,000 owing by the Company.

- xxii) 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 Company issued Mr. Andrea Cattaneo 1,123,068 common shares in the capital of the Company 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's salary as at April 1, 2017.

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xxiii) On 21 June 2018, the Company raised gross proceeds totaling, in aggregate, £2,167k (CAD\$3,694k). As a result of the Placing, Subscription the Company 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.

12. Warrants and options

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD \$'000
Balance – March 31, 2017	5,000,000	56,995,908	0.21	1,877
Options issued	2,750,000	-	0.15	200
Warrants exercised	-	(1,019,250)	0.15	(153)
Expired	-	(7,533,833)	0.25	(220)
Balance – June 30, 2017	7,750,000	48,442,825	0.20	1,704
Options issued	2,000,000	-	0.17	305
Warrant issued	-	180,000	0.07	12
Options exercised	(3,900,000)	-	0.10	(226)
Options exercised	(1,750,000)	-	0.12	(98)
Warrants exercised	-	(10,375,842)	0.25	(53)
Warrants expired	-	(2,349,320)	0.15	(76)
Warrants expired	-	(8,870,019)	0.25	(693)
Balance – March 30, 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	48
Warrants expired	-	(1,350,000)	0.25	(46)
Balance – September 30, 2018	14,600,000	23,499,319	0.15	1,655

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	May 2017	1,000,000	0.15	May 2022
Stock options	November 2017	2,000,000	0.18	November 2022
Stock options	April 2018	10,500,000	0.12	April 2023
	TOTAL	14,600,000		

Options

The Company 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 recognised in the consolidated statements of income (loss) and comprehensive income (loss). Share options expire five years from the date of granting.

As at September 30, 2018, the Group had 14,600,000 stock options outstanding (relating to 14,600,000 shares) and exercisable at a weighted average exercise price shown on the table above per share with a weighted average life remaining of 4.2 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 November 18, 2016, the Company granted options to certain of its Directors and employees to acquire a total of 6,000,000 Common Shares pursuant to its Stock Options Plan. Each option granted entitles the relevant holder to acquire one common share for an exercise price of CAD\$0.10 per Common Share.

The expiry date of the options is the date falling five years from the date of grant, being 18 November 2021.

The Stock Options Plan was approved by shareholders of the Company at the last AGM held on March 29, 2018.

On February 22, 2017, the Company announced that a Director of the Company had exercised stock options to acquire a total of 1,000,000 common shares in the capital of the Company at a price of CAD\$0.10 per common share and a total cost of CAD\$100k.

On May 17, 2017, Zenith granted additional options to certain of its Directors and employees to acquire a total of 2,750,000 common shares in accordance with Zenith's Stock Options Plan. Each stock option entitles the relevant holder to acquire one common share for an exercise price of CAD\$0.15 per common share. The expiry date of the options is the date falling five years from the date of grant, being May 17, 2022.

On November 29, 2017 the Company granted additional options to certain of its Directors and employees to acquire a total of 2,000,000 common shares in accordance with Zenith's Stock Options Plan. Each stock option entitles the relevant holder to acquire one common share for an exercise price of CAD\$0.175 per common share. The expiry date of the options is the date falling five years from the date of grant, being November 29, 2022.

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.

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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 the duration of five years from the date of granting.

Exercise of options

On May 25, 2017, the Company announced that 1,000,000 new common shares (the “**Option Shares**”) had been issued by the Company on May 23, 2018, following the exercise of options made by an Executive Director of the Company, Mr. Luigi Regis Milano, on February 22, 2018, following confirmation by Mr. Regis Milano regarding the custodian to whom the Option Shares should be issued.

- On September 27, 2017, the Company announced that a Director of the Company had exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD\$0.10 per Common Share and a total cost of CAD\$100,000 (£60k);
- On November 23, 2017, the Company announced that a Director of the Company had exercised stock options to purchase 2,000,000 common shares in the capital of the Company at a price of CAD\$0.10 per Common Share and a total cost of CAD\$200,000 (£118k);
- On December 15, 2017, the Company announced that a Director of the Company had exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD\$0.15 per Common Share and a total cost of CAD\$150,000 (£87k).
- On December 18, 2017, the Company announced that a Director of the Company had exercised stock options to acquire 500,000 new common shares of no par value in the capital of the Company at an exercise price of CAD\$0.10 per stock option (approximately £0.06) at a total cost of CAD\$50,000 (£30k).
- On December 18, 2017, the Company announced that the Chief Financial Officer of the Company had exercised stock options to acquire a total of 1,150,000 new common shares of no par value in the capital of the Company. 400,000 of the new common shares had an exercise price of CAD\$0.10 per new share (approximately £0.0583). The remaining 750,000 new common shares had an exercise price of CAD\$0.15 (approximately £0.0874). The total consideration for the Chief Financial Officer’s exercise of stock options was CAD\$152,000 (approximately £91k).

Type	Grant Date	Number of Warrants	Price per unit CAD\$	Expiry Date
Warrants	November-15	4,214,125	0.25	November-18
Warrants	November-16	732,920	0.20	November-18
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		23,499,319		

As at September 30, 2018, the Group had 23,499,319 warrants outstanding (relating to 23,499,319 shares) and exercisable at a weighted average exercise price of CAD\$0.17 per share with a weighted average life remaining of 0.9 year.

The fair value of the warrants was calculated using the Black-Scholes pricing model calculations based

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on the following significant assumptions:

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

13. Loans

	Six months ended 30 September	
	2018	2017
	CAD\$'000	CAD\$'000
Loan payable - current	4,011	2,840
Loan payable – non-current	947	2,380
Total	4,958	5,220

The movement on the loans was as follows:

Loans – current	Six months ended 30 September	
	2018	2017
	CAD \$'000	CAD \$'000
As at 1 April	237	973
Loan receipt	38	135
Transfer to non-current	-	1,994
Transfer from non-current	3,929	-
Repayments	(124)	(330)
Foreign exchange	(69)	68
As at September 30	4,011	2,840

Loans – non current	Six months ended 30 September	
	2018	2017
	CAD \$'000	CAD \$'000
As at 1 April	4,949	4,527
Loan receipt	-	-
Transfer from current	-	(1,944)
Transfer to current	(3,929)	-
Foreign exchange	(73)	(153)
As at 30 September	947	2,380

a) US\$ loan payable

As at September 30, 2018, the Group was indebted to a third party lender for a US\$1,485k (CAD\$1,946k) loan payable, bearing fixed interest at 10% per annum.

The President, CEO and Director of the Group, has provided a personal guarantee to the lender in respect of the repayment of the US\$ Loan by the Group and the final payment of approximately US\$1,485k. On January 10, 2018, the parties amended the repayment terms: the final payment of approximately US\$1,485 is now repayable on July 31, 2019.

As at September 30, 2018, CAD\$1,946k (September 30, 2017 – CAD\$1,994k) of principal was classified as a current liability and CAD\$634k (September 30, 2018 – CAD\$379k) of accrued interest was included in trades and other payables.

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b) Euro bank debt

On August 6, 2015, the Group received 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 September 30, 2018 the principal balance of the loan was €98k (CAD\$146k) of which CAD\$70k was classified as a current liability and CAD\$76k was classified as long-term.

c) Euro bank debt

On December 17, 2015, the Group received a €200k loan (CAD\$318k) from Credito Valtellinese Bank of Tortona. The loan is unsecured, bears fixed interest at 4.5% per annum and is repayable in 42 monthly payments of principal and interest until July 17, 2019.

As at September 30, 2018 the principal balance of the loan was €51k (CAD\$76k) of which CAD\$76k was classified as a current liability.

d) US\$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 \$416), for industrial and production purposes. The loan drawn down in one tranche and as at April 6, 2017, it was 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% from production levels as 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 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\$416k) 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. The Company will pay interest on a monthly basis and the principal total amount of US\$40k has been paid with September 30, 2018. The balance of the principal amount will be repaid at a new maturity date of April 6, 2019.

As of September 30, 2018 the outstanding principal amount was US\$240k (CAD\$310k) and it was classified as a current liability.

e) US\$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\$260,000). 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 will be paid at the end of the period. The amount of interest is repayable monthly. The loan is guaranteed by the Group. In March 2018, the repayment of the principal amount (US\$200k) was extended by 15 months until July 12, 2019. The interest is payable on a monthly basis and the principal amount will be paid in five quarterly installments of US\$40k.

As of September 30, 2018, the amount of US\$200k (CAD\$230k) was classified as a current liability.

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f) Swiss loan CHF 837,500

On March 30, 2017 the Group acquired the Swiss based company Altasol SA, and assumed a loan subscribed for the former owner on December 21, 2015 for the initial amount of CHF838k (CAD\$1,120k). The loan bears interest at a rate of 2.32% per annum. The loan is repayable in anticipated quarterly tranches of CHF13k (plus accrued interest) (CAD\$17k) and the maturity date is July 7, 2022.

As at September 30, 2018 the principal balance of the loan was CHF713k (CAD\$936k) of which CAD\$66k was classified as a current liability and CAD\$870k was classified as non-current liability.

g) Swiss loan CHF 1,000,000

On March 30, 2017 the Group acquired the Swiss based company Altasol SA, and assumed a loan subscribed by the former owner on December 21, 2015 for the initial amount of CHF1,000k. The loan bears interest at a rate of 2.2% per annum. The loan is repayable July 2, 2019 (plus accrued interest).

As at September 30, 2018 the principal balance of the loan was CHF1,000k (CAD\$1,314k) and it was classified as a current liability.

14. Non convertible bonds and convertible notes

Non convertible bonds	Six months ended 30 September	
	2018	2017
	CAD\$'000	CAD\$'000
Current	385	-
Non-current	-	385
Total	385	385
Non convertible bonds		
		CAD \$'000
Balance – April 1, 2017		385
Interest		-
Accretion		-
Conversion		-
Repayments		-
Foreign currency translation		-
Balance – September 30, 2017		385
		CAD \$'000
Balance – April 1, 2018		407
Decretion		-
Conversion		-
Repayments		-
Foreign currency translation		(22)
Balance – September 30, 2018		385

As of September 30, 2018 the outstanding accrued bond interest was CAD\$19k.

On April 18, 2018 the Company announced the extension of the maturity date of the Series A Bond (the "**Bond Extension**"). The Bond Extension extends the maturity date for the Series A Bond from May 4, 2018 by six months to November 4, 2018. For the duration of the Bond Extension the interest rate of

the Series A Bond has been increased to fifteen per cent per annum (15% p.a.). No further material terms will be amended in the Series A Bond or in any other document related to the 2015 Private Placement.

Furthermore, in connection with the work undertaken on the Bond Extension, Optiva Securities Limited, the Company's joint broker, will be paid a fee consisting of: (i) £10,125 in cash (CAD\$18,141 at an exchange rate of 1.79167); and (ii) 93,750 common share purchase warrants ("**Warrants**"). The Warrants entitle the holder to acquire one common share in the capital of Zenith at an exercise price of £0.12 (approximately CAD\$0.215) for the period until May 2021.

15. 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

At the time of the formal finalization of the transaction the production in Azerbaijan was approximately 300 barrels per day of oil, although the field has historically produced much larger quantities (Source: SOCAR). Gas is also produced, but in low quantities and is used onsite.

The Company, which is free to sell/export oil without restrictions, sells its oil through the Marketing and Operations Department of SOCAR ("**SOCARMO**"). A commission of 1% of total sales is payable to SOCARMO.

Between 2018 and 2020, the Company plans to workover a total of 44 existing wells in Azerbaijan which are currently inactive or produce at low rates (< 5 STB/d) to bring rates up to 10 to 15 STB/d per well using improved technology, non-damaging fluids and optimized treatments. It is estimated that 11 wells will be worked over in 2018, 15 wells in 2019 and 8 wells in 2020.

The Company's rehabilitation programme has commenced using the Company's existing A-80 workover rig, which has been fully reconditioned, and also utilizing a more powerful workover rig operated by an experienced local drilling company. Zenith intends to purchase an additional modern workover rig to enhance its field operational capabilities within the next four years and thereby reduce its reliance on external oilfield service companies.

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In addition to the marginal producing wells, five non-producing wells in the Maykop zone in the Zardab field in Azerbaijan are expected to be worked over in 2019 and to be returned to production once the existing wellbore and sand production issues have been resolved.

The Company intends to drill 3 development wells during the course of 2018 in Azerbaijan. The objective is predicated on the availability of a drilling rig.

The Company also intends to acquire one modern drilling rig capable of drilling to a depth 5,000m to carry out a fifteen-year drilling programme. It is anticipated that five new wells will be drilled in 2019, and ten wells in each year thereafter until the planned drilling programme is completed in 2033. The Company expects that a second drilling rig will be required to fulfil the aforementioned drilling programme.

During the first four years of the REDPSA it is estimated that US\$2,500k will be spent upgrading the gathering system and central facilities in Azerbaijan to improve safety, efficiency and handle higher production rates. During the same period, 39 active wells currently producing at marginal rates will be worked over at an estimated cost ranging from US\$40k to US\$400k per well, using the Company's existing workover rig.

It is anticipated that in 2019 five shut-in wells completed in the Maykop formation will be worked over to control sand production, at an estimated cost of US\$250k per well, and returning to an increase of production at a total of 200STBI/d.

On January 24, 2017, the Company announced the signing of a well workover contract and the engagement of an experienced local drilling company to execute the workover of the first two wells in the well workover programme (wells M-195 and M-45).

It is envisaged that development drilling will commence in 2019 and continue until 2033. It has been estimated that each well with proved reserves will cost approximately US\$4,300k. This cost will include the direct cost of materials, fuel, salaries, etc. to drill the well and an allocation for the purchase of one drilling rig, well completion and tie-in.

Proved reserves are those reserves that can be estimated by the competent person with a high degree of certainty to be recoverable. The estimate of the reserves is related to a given date, based on analysis of drilling, geological, geophysical and engineering data; the use of established technology, and; specified economic conditions, which are generally accepted and being reasonable, and shall be disclosed.

In addition to the costs anticipated for the wells with proved reserve, wells in the proved plus probable category have an additional allocation for the purchase and maintenance of a second drilling rig and expansion and modernization of the field facilities.

In all 145 wells are expected to be drilled over 16 years, of which 58 of these are anticipated to be horizontal wells.

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DEFERRED CONSIDERATION PAYABLE	September 30, 2018	September 30, 2017
	CAD\$'000	CAD\$'000
Compensatory Oil		
Current portion	253	138
Non-Current portion	5,344	5,739
Capital costs		
Current portion	422	302
Non-Current portion	477,788	478,295
As of 31 March	483,807	484,474
Deferred consideration payable current	844	440
Deferred consideration payable non-current	482,963	484,034
Total	483,807	484,474

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 19 (b).

16. Decommissioning obligation

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:

	Six months ended September 30,	
	2018	2017
	CAD \$'000	CAD \$'000
Balance – 1 April	9,140	7,980
Decretion	(37)	-
Foreign currency translation	(427)	-
Balance – 30 September	8,676	7,980

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:

	2018	2017
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	14.5 years	15.5 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.

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17. Earnings per share

	2018	2017
Net (loss) / profit	(3,276)	579
Basic weighted average number of shares	194,232	123,655
Potential dilutive effect on shares issuable under warrants ('000)	38,099	47,194
Potential diluted weighted average number of shares ('000)	232,331	170,849
	CAD\$	CAD\$
Net (loss)/profit per share – basic (1)	\$ (0.02)	\$ 0.01
Net (loss)/profit per share – diluted	\$ (0.01)	\$ 0.01
Net (loss)/profit per share continuing operations – basic	\$ (0.02)	\$ 0.01
Net (loss)/profit per share continuing operations – diluted	\$ (0.01)	\$ 0.01

⁽¹⁾ The Group did not have any in-the-money convertible notes, warrants and stock options during the periods ended September 30, 2018 and 2017. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

The basic and diluted loss per share for 2017 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 loss per share. Details of share warrants and options that could potentially dilute earnings per share in future years are set out in Note 12.

18. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognised at fair value. Related party transactions during the periods ended 30 September 2018 and 2017 not disclosed elsewhere in these consolidated financial statements are as follows:

- a) Included in trade and other payables is CAD\$180k (2017 – CAD\$nil) due a Director of the Group in respect of salaries. Mr. Cattaneo fully swapped his salary for the 2018 and 2019 financial years in exchange for common shares in Zenith. The Salary Sacrifice Shares was calculated based on Mr. Cattaneo's salary as at April 1, 2018, and were issued on October 2, 2018.
- b) During the six months ended September 30, 2018 a Director of Zenith, Mr. Andrea Cattaneo, purchased a total amount of 9,328,808 common shares of no par value in the capital of the Company at an average price of CAD\$0.06118 per common share (approximately £0.03641), and a total amount of CAD\$571k (approximately £340k).
- c) On July 6, 2018, Mr. Andrea Cattaneo agreed to act as a third-party guarantor in support of the Company. On July 5, 2018, Mr. Cattaneo pledged a total of 4,542,187 common shares in the capital of the Company, in which he has a direct beneficial interest, as collateral for the two-year non-convertible loan facility signed by Zenith Energy Ltd on May 24, 2018, for a total amount of up to US\$2,000,000.

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- d) As of September 30, 2018 Mr. Andrea Cattaneo has a direct beneficial interest in a total of 15,146,992 common shares in the capital of the Company.

19. Financial risk management and financial instruments

	Six months ended September 30,	
	2018	2017
Financial assets	CAD\$'000	CAD\$'000
Trade and other receivables	3,230	1,382
Cash and cash equivalents	4,197	2,393
Total financial assets	7,427	3,775

	Other financial liabilities	Financial liabilities at FVTPL	Financial liabilities at amortised cost
2018 Financial liabilities	CAD\$'000	CAD\$'000	CAD\$'000
Trade and other payables	10,588	-	-
Loans	3,800	-	1,158
Non-convertible bond	-	385	-
Deferred consideration	483,807	-	-
Total financial liabilities	498,195	385	1,158

	Other financial liabilities	Financial liabilities at FVTPL	Financial liabilities at amortised cost
2017 Financial liabilities	CAD\$'000	CAD\$'000	CAD\$'000
Trade and other payables	2,720	-	-
Loans	2,471	-	2,749
Non-convertible bond	-	385	-
Deferred consideration	484,474	-	-
Total financial liabilities	489,665	385	2,749

Details on the Group's financial liabilities are included below under liquidity risk.

Zenith finances its operations through a mixture of equity, debt and cash from operations. Finance requirements are reviewed by the Board when funds are required for the 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 period ended September 30, 2018.

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.

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Zenith's principal financial instruments are cash and deposits and these instruments are only for the purpose of meeting its 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 cash of CAD\$4,197k (2017 – CAD\$2,393k) and trade and other receivables of CAD\$3,230k (2017 – CAD\$1,382k).

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 summarised in the following table:

	September 30, 2018	September 30, 2017
	CAD\$'000	CAD\$'000
Oil and natural gas sales	2,686	1,003
Stamp tax and other tax withholdings	-	63
Goods and services	365	129
Other	179	187
	3,230	1,382

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. Other receivables related to the share subscription completed on 21 June 2018.

The Group considers its receivables to be aged as follows:

	September 30, 2018	September 30, 2017
	CAD\$'000	CAD\$'000
Current	2,865	1,382
90 + days	365	-
	3,230	1,382

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 sufficient 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 September 30, 2018, the contractual cash flows, including estimated future interest, of current

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and non-current financial liabilities mature as follows:

	Carrying Amount CAD\$'000	Contractual cash flow CAD\$'000	Due on or before September 30, 2019 CAD\$'000	Due on or before September 30, 2020 CAD\$'000	Due after September 30, 2020 CAD\$'000
Trade and other payables	10,588	10,588	10,588	-	-
Loans	4,958	6,061	4,511	690	860
Non-convertible bond	385	410	410	-	-
Deferred consideration	483,807	1,190,981	1,450	10,076	1,179,455
	<u>499,738</u>	<u>1,208,040</u>	<u>16,959</u>	<u>10,766</u>	<u>1,180,315</u>

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 as at September 30, 2018 and 2017 and for the six months period ended September 30, 2018 and 2017 are as follows:

	Closing rate		Average rate	
	2018	2017	2018	2017
US dollars	1.2895	1.2454	1.2986	1.2541
Euro	1.4961	1.4697	1.5285	1.4733
Swiss Franc	1.3132	1.2840	1.3186	1.3036
British Pound	1.6796	1.6686	1.7286	1.6412

The following represents the estimated impact on net (loss)/income of a 10% change in the closing rates as at September 30, 2018 and 2017 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

	September 30, 2018 CAD\$'000	September 30, 2017 CAD\$'000
US dollars	54	247
Euro	22	52
Swiss Franc	225	224
British Pound	-	64
	<u>301</u>	<u>588</u>

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 September 30, 2018, a 5% change in the price of natural gas produced in Italy would represent a change in results for the period ended September 30, 2018 of approximately CAD\$3k (2017 – CAD\$3k) and a 5% change in the price of electricity produced in Italy would represent a change in results, for the period ended September 30, 2018 of approximately CAD\$32k (2017 – CAD\$10k).

As at September 30, 2018, a 5% change in the price of crude oil produced in Azerbaijan would represent

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a change in the results for the period ended September 30, 2018 of CAD\$187k (2017 – CAD\$72k).

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.

20. Capital management

The Group's objective when managing capital is to safeguard the entity'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' deficit as capital.

	September 30, 2018 CAD\$'000	September 30, 2017 CAD\$'000
Working (deficiency)/capital	(8,237)	(2,017)
Long-term debt	947	2,765
Shareholders' equity	572,817	576,882

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

21. 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, UK and UAE entities.

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Six months ended September 30, 2017	Azerbaijan CAD\$000	Italy CAD\$000	Other CAD\$000	Total CAD\$000
Property and equipment	1,065,020	8,268	148	1,073,436
Other assets	862	826	4,935	6,623
Total liabilities	489,884	7,500	5,793	503,177
Capital Expenditures	876	55	-	931
Revenue	2,347	435	-	2,782
Operating and transportation	(1,243)	(247)	-	(1,490)
General and Administrative	(177)	(139)	159	(157)
Depletion and depreciation	(329)	(69)	(211)	(609)
Impairment of property and equipment	-	-	-	-
Finance and other expenses	60	(14)	(151)	(105)
Segment income / (loss)	658	(34)	(203)	421

Six months ended September 30, 2018	Azerbaijan CAD\$000	Italy CAD\$000	Other CAD\$000	Total CAD\$000
Property and equipment	1,064,680	8,646	2,296	1,075,622
Other assets	2,319	947	4,741	8,007
Total liabilities	492,061	8,027	10,723	510,811
Capital Expenditures	37	28	296	361
Revenue	3,738	386	-	4,124
Operating and transportation	(1,507)	(106)	(150)	(1,763)
General and Administrative	(352)	(174)	(3,952)	(4,478)
Depletion and depreciation	(785)	-	(1)	(786)
Finance and other expenses	(33)	(10)	(330)	(373)
Taxation	-	-	(1)	(1)
Segment income / (loss)	1,061	96	(4,434)	(3,277)

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

		2018	2017
		CAD \$000	CAD \$000
Customer A		3,738	2,347
Customer B		386	284

22. Controlling party

At as of September 30, 2018, the Directors do not consider there to be a controlling party.

23. Events subsequent to the period end

- a) On October 2, 2018, the Company's Chief Executive Officer & President, Mr. Andrea Cattaneo advised the Company that he had 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's salary as at October 1, 2018.
- b) On October 10, 2018 ARC Ratings, SA. ("**ARC Ratings**") assigned the Company a medium to long-term issuer credit rating of "B+" with Positive Outlook.
- c) On October 22, 2018, the Company announced that additional geological and reservoir investigations had enabled the Company to identify a new structure in the Middle Eocene and Upper Cretaceous formations of the Jafarli field.
- d) On November 7, 2018 the Company announced that it had received approval for admission to trading of its entire common share capital on the Merkur Market of the Oslo Børs (the "**Merkur Market**"). The Merkur Market is a multilateral trading facility owned and operated by the Oslo Børs. In addition, 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 7,273,850 (approximately £668,300 or CAD\$1,141,600) 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). No Insider/Person Discharging Managerial Responsibility subscribed for Placement Shares. Following issuance of the Placement Shares, the Company will have a total of 237,102, 587 Common Shares in issue. 237,102,587 Common Shares will be admitted to trading on the Merkur Market and listed on the TSX Venture Exchange in Canada. The Company announced that an application for the Placement Shares to be listed on the standard segment of the UK Official List and to be admitted to trading to the Main Market of the London Stock Exchange will be made within 12 months of the issue of the Placement Shares; the number of Common Shares listed on the standard segment of the UK Official List and to be admitted to trading to the Main Market of the London Stock Exchange remains at 216,320,158.
- e) On November 12, 2018, the Company announced that it had successfully completed a private placement on the Merkur Market of the Oslo Børs with Norwegian investors raising gross proceeds of NOK 1,000,000 (approximately £91,700 or CAD\$157,000) through the placement of 2,857,143 common shares of no par value (the "**Placement Shares**") at a subscription price of NOK 0.35 per Placement Share (approximately £0.032 or CAD\$0.055).