ZENITH ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS AND YEAR ENDED MARCH 31, 2017

This management's discussion and analysis (the “MD&A”) dated June 26, 2017 of Zenith Energy Ltd. (“Zenith” or the “Company”, is presented in Canadian dollars and should be read in conjunction with the Company’s March 31, 2017 audited consolidated financial statements, together with the accompanying notes.

The consolidated financial statements have been prepared by management and approved by Zenith’s Board of Directors on the recommendation of the Audit Committee. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. The financial data included in this MD&A is in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective as at April 1, 2015. The Company has presented its financial statements on a going concern assumption, which assumes that the Company will be able to continue to finance its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Refer to the Business Risks and Uncertainties section of this MD&A for additional information related to identified risks, estimates and uncertainties.

The functional currency of the Company is the Canadian dollar (“CAD”); the functional currency Company’s Argentine subsidiaries is the Argentine Peso; the functional currency of the Company’s Italian subsidiary is the Euro; the functional currency of the Company’s Azerbaijan is the Manat; the functional currency of the Company’s Swiss subsidiary is the Swiss Franc and the functional currency of the Company’s United States subsidiaries is the United States dollar. The Company’s presentation currency is the CAD. In this MD&A, unless otherwise noted, all dollar amounts are expressed in CAD. References to “USD” are to United States dollars, references to “€” are Euros and references to "GBP" are to Britain Pounds, references to “AZN” are to Azerbaijan Manat and references to “CHF” are to Swiss Franc.

The amounts are shown in thousands Canadian dollars (CADS’000), British Pounds (£’000) and US Dollars (USD$’000), where not disposed differently.

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

BOE Presentation – Production information is commonly reported in units of barrels of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet ("mcf") to one barrel of oil ("bbl"). This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Special Note Regarding Non-IFRS Measures – This MD&A may include references to certain financial measures, as described below, which do not have standardized meanings prescribed by IFRS, however, as these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors and they are measures that the Company uses to evaluate its performance. Investors are cautioned that these non-IFRS measures should not be construed as an alternative to the measures calculated in accordance with IFRS, given their non-standardized meanings; they may not be comparable to similar measures presented by other issuers. The term “field netback” is defined as petroleum and natural gas sales less royalties and less operating and transportation costs. The term “funds from (used in) operations”, defined as the cash flow from operating activities, before the change in non-cash working capital and abandonment expenditures, should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with IFRS as an indicator of performance. The Company’s determination of funds from operations may not be comparable to that reported by other companies.

Cautionary Statement regarding Forward-Looking Information

Certain information in this MD&A is forward-looking and related to anticipated financial performance, events and strategies. When used in this context, words such as “will”, “anticipate”, “believe”, “plan”, “intend”, “target” and “expect” or similar words suggest future outcomes. By their nature, such statements are subject to significant risks, assumptions and uncertainties, which could cause the Company’s actual results and experience to be materially different than the anticipated results. In particular, forward-looking information and statements include, but are not limited to: (i) expectations related to crude oil and petroleum products prices and demand; (ii) the state of capital markets; (iii) expectations related to operating costs in Azerbaijan and Italy; (iv) variations in the US dollar, Euro, Manat, and Canadian dollar exchange rates; (v) expectations related to regulatory approvals; (vi) management’s analysis of applicable tax legislation; (vii) expectations that the currently applicable and proposed tax laws will not change and will be implemented; (viii) expectation that management will continue to focus its efforts towards acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator at least for the initial exploration period; (ix) expectation that management will consider acquiring additional producing assets; (x) the capital expenditures required in order to re-commence production on both the Torrente Vulgano and Canaldente properties; (xi) the ability of the Company to re-commence production on both the Torrente Vulgano and Canaldente properties by late 2017; (xii) the price of natural gas and of the electricity in Italy; (xiii) the ability of the Company to comply with certain regulatory requirements in Italy; (xiv) the Company’s ability to increase its oil and gas production in the year 2017; (xv) expectations related to the properties producing oil in Azerbaijan named Muraxkhanli, Jafarli and Zardab, owned by Zenith Aran Oil Company and (xvi) business strategy and outlook.

These statements are based on certain assumptions and analysis made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate. The material factors and assumptions used to develop these forward-looking statements include, but are not limited to: (i) increased competition; (ii) assumption that operating costs in Azerbaijan and Italy may be reduced in future months and that the oil price in the international markets will continue to improve; (iii) additional financing of the Company is subject to the global financial markets and economic conditions; (iv) the Company will evaluate certain properties located within Azerbaijan and will focus on managing the properties acquired in 2016 with the intention to increase production and cash flows; (v) assumptions related to international oil and natural gas prices; (vi) ability to obtain regulatory approvals; (vii) costs of exploration and development; (viii) availability and cost of labour and management resources; (ix) performance of contractors and suppliers; (x) availability and cost of financing; and (xi) the Company’s business strategy and outlook.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Company's expectations. Such risks and uncertainties include, but are not limited to risks and uncertainties relating to: (i) volatility of and assumptions regarding commodity prices; (ii) product supply and demand; (iii) market competition; (iv) risks inherent in the Company’s operations; (v) potential disruption or unexpected technical difficulties in developing or maintaining facilities; (vi) risks associated with technology; (vii) Company’s ability to generate sufficient cash flow from operations to meet its current and future obligations; (viii) the Company’s ability to secure external sources of debt and equity as needed; (ix) changes in royalty, tax, environmental, greenhouse gas, carbon, accounting and other laws or regulations or the interpretation of such laws or regulations; (x) political and economic conditions in the countries in which the Company operates; (xi) terrorist threats; (xii) risks associated with potential future lawsuits and regulatory actions made against the Company; (xiii) the performance of counterparties in meeting their obligations under agreements; (xiv) economic conditions; (xv) equipment and labour shortages and inflationary costs; (xvi) fluctuations in foreign exchange rates; (xvii) the effect of weather conditions on operations and facilities; and (xviii) stock market volatility.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Forward-looking statements are provided for the purpose of presenting information about management’s current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes.

Except as required by law, the Company disclaims any intention and assumes no obligation to update any forward-looking statement.

Critical Accounting Estimates and Judgements

The Company makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related achieved amounts. The estimates and assumptions that have significant risk of causing material adjustments and assumptions to the carrying amounts of assets and liabilities are disclosed below.

In relation to the valuation of the assets and liabilities associated with the Azerbaijan acquisition, this assessment involves:

- Future revenues and estimated development and exploration costs;
- The discount rate to be applied for the purposes of deriving a recoverable value;
- The expected tax rate; and
- The expected oil price.

During the year ended March 31, 2017 the Company recognised a value of assets and associated liabilities for its Azerbaijan Assets acquired, including the payments due in respect of the acquisition relating to royalties, work and exploration programmes and taxation. The valuations of the assets and of the liabilities have been based on the Net Present Value ("NPV") of future cash flows included in the Competent Persons Report prepared on behalf of the Company by Chapman Petroleum Engineering Ltd. ("Chapman") as of August 31, 2016. The NPV of future cashflows was discounted at a rate of 10%. The Board considers 10% an appropriate rate of discount for the following reasons:

- The Asset has a verified producing history as well as current production;
- The asset is production & development one with 2P reserves (made by way of a National Instrument 51-101) based over an acreage of 642 square kilometres comprised of different structures;
- The Asset has low cost requirement as it is onshore; it presents a low operational risk;
- Azerbaijan has one of the world's oldest established Oil & Gas industries;
- Azerbaijan has a stable political environment with a government that has guaranteed and supported the licence rights of companies operating in the Oil & Gas industry since its independence in 1992
- Crude oil is exported via two different pipelines, one delivering oil to the Mediterranean Sea and the other to the Black Sea, thereby derisking routes to market from both a political and logistical perspective.
- The contract has been ratified by tha Parliament of the Republic of Azerbaijan, becoming an ordinary law of the country.

Any changes to the estimates may result in a material impact to the carrying value of both the assets and liabilities, arising in respect of the acquisition.

NATURE OF OPERATIONS, ACQUISITON AND EXPLORATION ACTIVITIES

The Company was incorporated under the Business Corporations Act (British Columbia) ("BCBCA") on September 20, 2007. The registered business address is 15th Floor, Bankers Court, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. Zenith's website is www.zenithenergy.ca. The Company is involved in the exploration for, development of and production of petroleum and natural gas in Azerbaijan and Italy and exploration for oil & gas in central Asia.

On March 10, 2010, Zenith formed Ingenieria Petrolera del Rio de la Plata S.r.l. ("IPRP"), a wholly owned subsidiary of Zenith. IPRP was initially incorporated in Buenos Aires, Argentina, to negotiate management agreements to operate existing producing properties. However, as described in following paragraphs, after Petrolera Patagonia S.r.l. was acquired, management saw no immediate needs for IPRP and the company was kept in a dormant state and held in trust by Zenith's trustees in Argentina until late 2011.

On July 20, 2010, Zenith incorporated a wholly owned US subsidiary, Ingenieria Petrolera Patagonia Ltd. ("IPP"), to act as the potential acquirer of two US based companies controlling Central Patagonia S.r.l., renamed as Petrolera Patagonia S.r.l., the owner of two producing oil fields in the Chubut Province in Argentina.

On July 22, 2010, Zenith acquired two US based companies, namely Central Patagonia Corporation (renamed Petrolera Patagonia Corporation or "PPC") and CPC Holdings (renamed PP Holdings Inc. or "PPH") owning respectively 95% and 5% of Central Patagonia S.r.l. (renamed Petrolera Patagonia S.r.l. or "PPS"), thereby acquiring two adjacent oil producing properties in Argentina.

On March 23, 2011, Zenith established Canoel Italia S.r.l. ("Italia Srl"), a wholly owned subsidiary of the Company, so that it would have an operating entity if the Company was awarded the oil and gas properties being posted for auction by the Ministry of Economic Development.

On August 27, 2011, Italia Srl was awarded two gas properties, which were previously on production but currently shut-in, an the auction by the Ministry of Economic Development. Zenith's bid was accepted on the basis of its technical presentation and proposed program to place the properties back on stream. The properties are Torrente Vulgano, located in the Puglia region, and Canaldente, located in the Basilicata region. Both regions are located in southern Italy, which is where the majority of hydrocarbons are produced.

In mid-2012, in line with the Company's strategy to increase its involvement in Italy through its Italian subsidiary, Zenith commenced negotiations to purchase producing and exploratory permits from a well-established gas producing company, Mediterranean Oil & Gas Plc, a British company with activities in Italy, France and Malta whose shares trade on the London AIM Stock Exchange.

On June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties (the "Assets") from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc (collectively, "MOG") after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership. The Assets are comprised of (i) 6 operated onshore gas production concessions: Masseria Grottavecchia (20% working interest), San Teodoro (100% working interest), Torrente Cigno (45% working interest), Misano Adriatico (100% working interest), Sant'Andrea (40% working interest) and Masseria Petrilli (50% working interest); (ii) 3 non-operated onshore gas production concessions: Masseria Acquasalsa (8.8% working interest), Lucera (13.6% working interest) and San Mauro (18% working interest) (collectively, the "Gas Licenses"); (iii) an operated exploration permit: Montalbano (57.15% working interest) (the "Exploration Permit"); and (iv) 3 exploration permit applications: Serra dei Gatti (100% working interest), Villa Carbone (50% working interest) and Colle dei Nidi (25% working interest) (the "Exploration Applications").

Most of the Gas Licenses are located onshore in southern Italy, in the Regions of Puglia, Basilicata, Molise, Abruzzo and Marche. The Exploration Permit and Exploration Applications are located in southern Italy and cover an area of 1,285 square kilometres.

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

In September 2015, the Company opened an office in Baku, the capital of Azerbaijan. In October 2015, the Republic of Azerbaijan issued a Presidential Decree which authorized the State Oil Company of the Republic of Azerbaijan ("SOCAR") to negotiate a Rehabilitation, Exploration, Development and Production Sharing Agreement ("REDPSA") with Zenith pursuant to which Zenith would receive the rights and obligations to an 80% participating interest in current and future production from three producing onshore oil fields named Muraxkhanli, Jafarli and Zardab, known as the Muraxkhanli Area (the "Area"), covering an area of 642.4 square kilometres.

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

On August 11, 2016 the handover of the Azerbaijan assets was formally completed with the necessary signatures on related documents and the Company commenced crude oil production of approximately 275 barrels of oil per day in Azerbaijan under Zenith's ownership hence the REDPSA became effective on August 11, 2016.

See Operational Update – Azerbaijan for further details.

Disposal of properties in Argentina

General description

On February 20, 2017, Zenith announced the sale of its operations in Argentina to a group of local energy investors.

Due to a series of circumstances beyond the Company's control, caused by the collapse of a major storage tank owned by YPF (Argentina's national oil company) , Zenith's Argentine operations was suspended and its oil production could no longer be transported through YPF pipelines.

To date, the issues affecting the transportation of oil have not been fully resolved and a persisting uncertainty on the recommencement of operations led Zenith to reconsider its operational involvement in Argentina.

The sale of the Company's Argentina subsidiary has been fixed at a nominal sum in recognition of the costs the new owner is expected to incur to return the Don Alberto and Don Ernesto fields fields to production. In addition, Zenith will no longer be liable for any environmental responsibilities or future well abandonment obligations for those fields..

Termination of activities in Argentina will enable Zenith's management to more effectively direct its focus on its Italian operations and especially towards Azerbaijan, where the Company's most important assets are located, and where a systematic programme of field rehabilitation has begun. This re-alignment reflects the Board's aversion to operational overstretch and the Company's preference for a strong, concentrated focus towards the achievement of its production objectives in Azerbaijan.

(i) Results of discontinued operations

	2017 $'000	**2016 $'000**
Revenue net of royalties	71	1,168
Operating expenses	(583)	(941)
Transportation expenses	(2)	(57)
General and administrative expenses	(264)	(400)
Depreciation and impairment expenses	(13)	(61)
Impairment of inventory	-	(228)
Gain on sale of marketable securities	-	20
Foreign exchange	107	776
Finance expense	(106)	(246)
Loss on disposal of discontinued operations	(3,573)	-
(Loss)/profit for the year	(4,363)	31

Earnings per share from discontinued operations	**2017 CAD**	**2016 CAD**
Basic and diluted profit / (loss) per share	(0.01)	0.00

Statement of cash flows	**2017 $'000**	**2016 $'000**
Operating activities	(390)	(386)
Investing activities	-	(11)
Financing activities	331	198
Net cash from discontinued operations	(59)	(199)

(ii) Loss on disposal of subsidiaries

The post-tax loss on disposal of discontinued operations was determined as follows:

	2017 $'000
Cash consideration received	1
Other consideration received –	-
Total consideration received	1

Overdraft disposed of	3
Net inflow received on disposal of discontinued operations	4
Net assets disposed of (other than cash)	-
Investment in subsidiaries	(1,864)
Loans to subsidiaries net of impairment	(402)
Other assets and liabilities	(1,307)
Pre-tax loss on disposal of discontinued operations	(3,573)
Related tax expense	-
Loss on disposal of discontinued operations	(3,573)

Acquisition of a Swiss based Company

On March 30, 2017 Zenith acquired a Swiss company, Altasol SA, paying an amount of CHF 100.00 (CAD$134).

The acquired entity is a non-operating company, which was purchased with the prospective of developing an oil trading subsidiary of Zenith Energy Ltd.

At the date of purchase the situation was as described in the following financial situation. The data relating the acquired company were simply added and included in the consolidation at their nominal value.

Financial Statements as of 30 March 2017

ASSETS	**CAD '000**
Current Assets	
Goodwill	-
Bank C/C	2,343
TOTAL ASSETS	2,343
LIABILITIES	
Short Term Loans	66
Long Term Loans	2,277
TOTAL LIABILITIES	2,343
Equity	
Profit from acquisition	-
TOTAL LIABILITIES AND EQUITY	2,343

DEVELOPMENT AND EXPLORATION ACTIVITIES

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

	Years ended March 31	
Capital additions	**2017**	2016
	CAD$'000	**CAD$'000**
Argentina	**-**	237
Azerbaijan	**212**	-

Italy	**195**	178
Other	**6**	
	$ 413	$ 415

HIGHLIGHTS FOR THE THREE MONTHS AND YEAR ENDED MARCH 31, 2017 INCLUDE THE FOLLOWING:

Operational:

- During the three months and year ended March 31, 2017 the Company sold 25,954 and 68,866 bbls of oil from its properties in Azerbaijan. This data is not comparable to the past year.

  It is important to note that the data regarding the year 2017 includes the oil production from August 11 to March 31, 2017.

  At the end of March 2017, there were 272 bbls of unsold oil production in Azerbaijan held in inventory which were sold in subsequent months. Total oil sales, transfers of produced volumes to the Termap Oil Storage and oil held in inventory at the end of the period correspond to an average daily production rate for the three months ended March 31, 2017 of 281 bbls of oil per day. The average daily production rate is not comparable with past year.

- During the three months and year ended March 31, 2017, the Company sold 4,787 and 25,124 mcf of natural gas from its Italian properties as compared 14,966 and 92,345 mcf of natural gas in the 2016 similar periods, with a decrese of 68% and 73%. The predominant reason for the decrease is a change in classification from gas to electricity from the Torrente Cigno concession. Prior to October 1, 2015, the Company sold its 45% share of this gas to the previous electricity producer and included such sales in oil and gas revenues. Following the Company's acquisition of co-generation equipment and facilities on October 1, 2015, the Company became an electricity producer and now classifies its 45% share of Torrente Cigno gas production as sales volumes for electricity.

- During the three months and year ended March 31, 2017, the Company sold 93 and 692 bbls of condensate from its Italian properties as compared to 230 and 906 bbls of condensate in the 2016 similar periods, with a decrease of 12% and 11% respectively.

- During the three months and year ended March 31, 2017, the Company sold 1,524 and 9,636 MWh of electricity from its Italian properties as compared to 2,636 MWh of electricity in the three months ended March 31, 2016 with a decrease of 42%, due a production disruption of 40 days in the Torrente Cigno concession for extraordinary and adverse weather conditions. The electricity production in Italy started on October 1, 2015 and therefore values relating the two years are not comparable.

  On August 11, 2016 the handover of the Azerbaijan assets, physically completed in June 2016, was formally completed with all the necessary signatures on related documents and the Company commenced crude oil production of approximately 275 barrels of oil per day under its direct ownership.

  The acquistition of the assets in Azerbaijan was reflected in an immediate accretion of the oil gross revenues of CAD$2.56 million for the period from August 11 to March 31, 2017.

- On March 30, 2017 the Company acquired a Swiss company, Altasol SA, paying an amount of CHF 100.00 (CAD$134).

  The acquired entity is a non-operating company, which was purchased with the prospective of developing an oil trading subsidiary of Zenith Energy Ltd.

Financial:

- The Company generated oil and natural gas revenue, net of royalties, of $3,922k and $574k of electricity revenue in the twelve months ended March 31, 2017 versus $1,698k and $262k respectively, in the comparative period.

- The Company incurred $413k of capital expenditures in the twelve months ended March 31, 2017.

- In July 2016, the Company sold 116,913 shares of GRIT for gross cash proceeds of CAD $11k.

- On June 14, 2016, the Company received notice that the Parliament of the Republic of Azerbaijan ratified the Rehabilitation, Exploration, Development and Production Sharing Agreement ("REDPSA") for certain Areas of Azerbaijan oil fields in which the Company holds an 80% participating interest in current and future production.

- In June 2016, the Company started the operation to establish Aran Oil Operating Company Ltd., an 80% owned subsidiary of Zenith Aran, to serve as operator of the REDPSA.

- The delivery of the capital assets previously used in respect of the petroleum operations at the Azerbaijani operations, from the previous operating company to Aran Oil, physically completed in June 2016, was formally completed on August 11, 2016 (the "Effective Date") with the necessary signatures on related documents.

  Aran Oil now has operational control of the Azerbaijani Operations. The transfer of operational control did not involve any interruption of petroleum production operations at the Azerbaijani operations.

  As a part of the handover, an inventory of equipment and material was prepared and the volumes of oil in the pipelines and tanks were recorded. Any revenues related to the existing oil as at the date of Handover were allocated to SOCAR. At the time of the formal finalitazion of the transaction, the production in Azerbaijan was about 275 barrels per day of oil. The Azerbaijan fields have generated revenues for the Company since the completion of the transfer to Aran Oil.

  The handover involved the transfer of certain individuals employed by the previous operator of the Azerbaijani fields to Aran Oil. In accordance with the laws of Azerbaijan, the transfer process involved the relevant employees being dismissed by their previous employer (the outgoing operator of the Azerbaijani fields) and such employees entering into new employment contracts with Aran Oil. Payments to the relevant employees arising as a result of their dismissal by the previous operating company were for the account of the previous operating company. In accordance with the laws of Azerbaijan, the relevant employees have been employed by Aran Oil starting with the Effective Date. The form of employment agreement follows the template prescribed by the Azerbaijani labour code.

  The capital assets which transferred to Aran Oil as part of the handover include production equipment, vehicles, wells, pumps, storage facilities, tools, generators, compressors, pipelines, offices, warehouses, buildings, rigs, yards, roads, infrastructure, radios, tubular goods, supplies, materials and facilities. The Company appointed a consultant in Azerbaijan to review and report on the existance and the state of the assets prior to handover.

  The term of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's development program. The term of each Area may be extended by an additional five years at SOCAR's discretion.

  The valuations of the asset and of the liabilities have been based on the Net Present Value ("NPV") of future cash flows included in the Competent Persons Report prepared on behalf of the Company by Chapman Petroleum Engineering Ltd. ("Chapman") as of August 31, 2016.

  There was an effective CAD $0 acquisition price applied to the calculation of the gain on bargain purchase. The acquisition of assets has been brought to account as a business combination using the acquisition method of accounting and resulted in a bargain purchase arising as follows:

  Fair value of net assets acquired CAD$'000

Development and production assets	1,065,346

Compensatory Oil*	(5,963)
Capital Costs*	(478,598)
Decommissioning Obligations*	(1,790)
Gain on business combination	**578,995**

* Amounts required to be paid under the terms of the REDPSA and therefore, in accordance with FRS3 ("Business Combinations"), they form part of the acquisition amount.

The activity of the newly-acquired Azerbaijan subsidiaries are included within note 28 of The Financial Statements 'Operating segments'.

Development and production (D&P) assets

The estimated value of the D&P assets acquired was determined using both estimates and an independent reserve evaluation based on oil and gas reserves discounted at 10%.

Decommissioning provisions

The fair value of decommissioning obligation assumed was determined using the timing and estimated costs associated with the abandonment, restoration, and reclamation of the wells and facilities acquired, discounted at a credit adjusted rate.

On August 12, 2016, the day immediately following the acquisition date, the decommissioning obligation assumed was remeasured using a long term risk free rate based on the expected timing of cash flows, in accordance with IAS 37 ("Provisions, Contingent Liabilities and Contingent Assets"). The result was a CAD $1,790k increase in the decommissioning obligation associated with the acquired assets. Therefore, the net result of the acquisition, in view of the decommissioning liability recognition, became a gain of CAD $578,995k for the year 2017 consolidated statement of income and comprehensive income using prevailing exchange rates.

DEFERRED CONSIDERATION PAYABLE

a. Compensatory oil

The Company has an obligation, in force of the contract, 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 (approximately 315,000 barrels) 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.

b. Capital Costs

At the time of the formal finalitazion of the transaction, the production in Azerbaijan was about 275 barrels per day of oil, although the acquired fields have produced much larger quantities previously (Source: SOCAR). Gas is also produced, but in low quantities and is used on site.

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 2017 and 2020, the Company plans to workover a total of 44 existing wells 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 10 wells will be worked over in 2017, 11 wells in 2018, 15 wells in 2019 and 8 wells in 2020.

This program has commenced using the existing workover rig in the field and Zenith intends to purchase an additional modern workover rig to optimize the workover of the wells, within the next four years.

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 obstructions and sand production issues have been resolved.

The Company intends to acquire one modern drilling rig capable of drilling 4,500m to carry out a fifteen year drilling program. It is anticipated that five new wells will be drilled in 2019 and ten wells in each year thereafter until the anticipated drilling program is completed in 2033.

During the first four years of the REDPSA it is estimated that US$1,500,000 will be spent upgrading the gathering system and central facilities 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 USD$25k to USD$32k per well, using the 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 USD$150k per well, and returning to an increase of production at a total of 200STBl/d.

On January 24, 2017 the Company announced the signing of a well workover contract and the engagement of highly experienced local drilling company to initiate and execute the workover of the first two wells in the program (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 a prorated allocation of the cost to purchase one drilling rig, plus well completion and tie-in.

Proved reserves are those reserves that can be estimated, by competent professional, with a high degree of certainty to be recoverable. The estimate of the reserves are 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 are anticipated to be horizontal wells.

DEFERRED CONSIDERATION PAYABLE

	March 31, 2017 CAD$'000	**March 31, 2016 CAD$'000**
Compensatory Oil		
Current portion	138	-
Non-Current portion	5,739	-
Capital costs		
Current portion	302	-

Non-Current portion	478,295	-
As of 31 March	**484,474**	**-**
Deferred Condideration payable current	440	-
Deferred Condideration payable non-current	484,034	-
Total	484,474	-

- On April 11, 2016 the Company completed a private placement of 6,674,775 shares at CAD$0.08 per share or unit, for gross proceeds of CAD$534k. Of the 6,674,775 shares, 5,000,000 shares were issued forming part of a unit comprising one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD$0.15 per common share for a period of 24 months from the date of issuance. The remaining 1,674,775 shares were issued without accompanying warrants. The Company paid aggregate finders' fees of CAD$27k in connection with this private placement.

- On April 21, 2016, Zenith completed a private placement of 3,892,875 shares at CAD$0.08 per unit for gross proceeds of CAD$311k. Each unit is comprised of one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD$0.15 per common share for a period of 24 months from the date of issuance. The Company paid aggregate finders' fees of CAD$15k and issued 179,712 warrats to certain arm's-length parties in the connection with the private placement.

- On June 9, 2016, Zenith issued 2,730,000 shares at a deemed price of $0.11 per share in partial conversion of convertible notes $300k (Note 10), and 312,500 shares at a price of $0.10 per share to creditors of the Corporation to settle debts owing by the Company totalling $31,000.

- On June 16, 2016 the Company closed a non-brokered private placement of 1,519,250 shares at a price of $0.08 per unit for aggregate gross proceeds of $122k. Each unit is comprised of one common share and one common share purchase warrant. Each warrant will be exercisable for one common share at a price of $0.15 per share for a period of 24 months from the date of closing of the offering. The Company paid aggregate finders' fees of CAD$6k in connection with this private placement.

- On July 16, 2016, the Company's wholly owned subsidiary in Argentina, Petrolera Patagonia S.r.l. ("PPSRL"), entered into a loan agreement with Arpenta Sociedad de Bolsa S.A. ("Arpenta"), pursuant to which PPSRL borrowed USD $154k (CAD$191k) of Bonar 2017 Argentine sovereign bonds (the "Bonds") (the "Arpenta Bond Loan"). PPSRL subsequently sold the Bonds in the market (for Argentine pesos) to address cashflow requirements. Interest was payable on the Arpenta Bond Loan at a rate of 4% per annum. The Arpenta Bond Loan had a bullet repayment date of 15 December 2016, although management at PPSRL had taken steps for the Arpenta Bond Loan to be rolled-over (in whole) for an additional 180 day period. Repayment of the Arpenta Bond Loan was required to be made to Arpenta in the same Bonar 2017 Argentine sovereign bonds as were borrowed. Following the sales agreement, related to the disposal of the assets previously disclosed, on February 24, 2017 the Group paid CAD$105k to settle Zenith's obligation on this loan .

- On August 9, 2016, the Company 's wholly-owned subsidiary, Zenith Aran, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("Rabitabank") (the "First Credit Agreement") up to an amount of US$320k, for industrial and production purposes. The loan could be drawn down in tranches and as of September 30, 2016 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 First Credit Agreement bears interest at a rate of 12% per annum. The loan is guaranteed by Zenith . In November 2016 the Company repaid the first tranche of the loan in the amount of US$160k.

  On February 22, 2017 the terms of the repayment of this First Credit Agreement were amended.

  During March 2017 the Company used additional USD$160k (CAD$213k) from the credit line.

As of March 31, 2017 the amount of USD $320k (CAD $399k) plus accrued interest was still outstanding and classified as a current liability, but was repaid in full on April 16, 2017.

- On August 29, 2016, the Company amended the terms of repayment of the USD loan such that a USD $700k (CAD$943k) payment would be payable on October 15, 2016 and a final payment of approximately USD $1,485k (CAD$2,000k) would be due on April 10, 2018.

- On September 30, 2016, Zenith Aran entered into a general line of credit agreement with Rabitabank (the "Second Credit Agreement") up to an amount of USD $200k. The Second Credit Agreement bears interest at a rate of 12% per annum. The loan is repayable in two tranches; USD $100k (plus accrued interest) (CAD$133k) was paid in February 2017 and the remaining USD $100,00 (plus accrued interest) (CAD$133k) to be paid on April 2017. The loan was guaranteed by the Company . As of March 31, 2017 the amount of USD $100k (CAD $133k) plus accrued interest was still outstanding and classified as a current liability, but was repaid on April 16, 2017-

- On October 10, 2016 the Company closed a non-brokered private placement of 1,906,050 common shares at a price of CAD $0.10 per unit for aggregate gross proceeds of CAD $191k. Each unit is comprised of one Common Share and one common share purchase warrant. Each common share purchase warrant will be exercisable for one Common Share at a price of CAD $0.20 per share for a period of 24 months from the date of closing of the offering. The Company paid aggregate finders' fees of CAD$10k in connection with this non-brokered private placement.On 19 October 2016, the Company issued 724,235 common shares at a deemed price of CAD $0.085 per common share to certain debtholders and creditors of the Company to settle debts owing by the Company, representing an aggregate of CAD $62k.

- On November 7, 2016, the Company completed a non-brokered private placement of 2,745,062 units at a price of $0.12 per unit for aggregate gross proceeds of $329k. Insiders of the Company subscribed for an aggregate of 2,195,475 units for aggregate subscription proceeds of $263k. Each unit is comprised of one common share in the capital of Zenith and one common share purchase warrant. Each warrant will be exercisable for one common share at a price of $0.20 per share for a period of 24 months from the date of closing of the offering. The Company paid aggregate finders' fees of CAD$4k in connection with this private placement.

- On December 2016 the Company amended the repayment of the USD $700k (CAD$943k) of the USD loan to January 2017.

- On November 22, 2016, Gunsynd Plc ("Gunsynd"), a company listed on the London Stock Exchange's AIM market, invested £100k by way of subscription for convertible unsecured loan notes bearing interest of 3% per annum. Interest on the new convertible notes is payable in arrears in quarterly instalments. At the option of Gunsynd, the principal of the new convertible notes may be converted into common shares of the Company at any time prior to the expiry of 36 months from issuance at a price equal to CAD $0.10 per common share (or the initial listing price of the common shares if the Company is listed on another senior stock exchange at the time of such conversion).

  On March 21, 2017 Gunsynd Plc elected to fully convert its £100k principal amount unsecured convertible note into common shares of the Company at the conversion price of CAD$0.10, as outlined in the Zenith's prospectus published on January 2017. Upon conversion of the convertible note, 1,637,100 Common Shares will be issued to Gunsynd. This conversion will eliminate Zenith's GBP convertible debt.

- On November 23, 2016, the Company issued 150k Common Shares to a certain debtholder of the Company (based on a price of CAD$ $0.08 per share) in settlement of a debt of GBP £7k (CAD$12k) (inclusive of accrued interest) owed by the Company in respect of services provided by the debtholder.

- On November 28, 2016, the Company formalized the previously reached agreement for the amendments of the terms of its 5% convertible unsecured debenture (convertible notes). The proposed amendments to the Debenture will include an extension of two years to the maturity date from January 11, 2017 to January 11, 2019, a reduction to the conversion price from $0.125 per common share to $0.11 per common shares and a reduction to the interest rate payable by the Company from 5% to 1% for the remainder of the term. The proposed extension to the debenture, and the reduction in the conversion price and interest rate remains subject to approval of the TSX Venture Exchange.

- In November 2016 the bond was partially repaid for CAD$121k (with related accrued interest), and within December 31, 2016 all the outstanding accrued bond interests were paid in the amount of CAD$71k.

- On January 5, 2017 - The Company announced that the prospectus dated January 5, 2017 (the “Prospectus”) had been approved by the UK Listing Authority. The Prospectus relates to admission of the Company's common shares to the standard listing segment of the official list and to trading on the London Stock Exchange's Main Market ("Admission"). Admission and commencement of dealings in the Company's common shares did occur on 11 January 2017.

  In connection with Admission, the Company successfully placed 33,322,143 common shares (the"UK Placing"). Following its book-building process, in which common shares were placed at £0.07 (CAD$0.11) , and on completion of the UK Placing, the gross proceeds available to the Company were approximately £2,333k (CAD$3,824k) and the net proceeds were approximately £2,016k (CAD$3,305k). The Company paid finder’s fees of GBP 114k (CAD$187k) and issued 1,114,286 broker warrants exercisable for 24 months from closing at a price of GBP 0.07 per common share to certain arm’s-length parties under the private placement undertaken as part of the dual listing on the London Stock Exchange on 11 January 2017.

- On January 11, 2017 – The Company announced that its entire common share capital, consisting of 98,564,867 common shares, was admitted to the standard listing segment of the Official List of the FCA and to trading on the London Stock Exchange's Main Market under the ticker symbol "ZEN". Admission became effective and dealings commenced at 8.00 a.m. on January 11, 2017.

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

- On January 2017 the Company paid the USD $700k (CAD$943k) of the USD loan, utilising part of the proceeds from the fundraising aligned with the listing on the London Stock Exchange of January 11, 2017.

- On January 2017 the Company issued 668,571 shares, at a deemed price of £0.07 per share, for the settlement of a debt for services of a senior manager of the Companty, for an amount of £47k (CAD$77k).

- On January 2017 the Company incurred expenses for a total amount of £307k (CAD$506k), related to the admission to the London Stock Exchange listing, as follow:

Role	**Cost (£’000)**	**Cost (CAD$’000)**
UK Legal Counsel to the Company	100	166
TSX - V share issue costs	18	30
Auditors & Reporting Accountants	70	115
Registrar	1	2
Legal opinion Crest	5	8
Prospectus Printers	8	13
placings payable	96	158
LSE Admission Fees	9	14
Total	**307**	**506**

- On January 30, 2017 the Company entered into an agreement to proceed with a brokered private placement (the "Private Placement") to raise gross proceeds of GBP 855k (approximately CAD$ 1,408k) through the issue of nine million (9,000,000) new common shares of the Company ("New Common Shares") at a price of GBP 0.095 (approximately CAD$ 0.1565) per share.

  In addition to the New Common Shares, under the Private Placement each subscriber received one warrant (the "Warrant") for every New Common Share purchased. Each Warrant shall entitle the warrant holder to subscribe for one new Common Shares in the Company at a price of GBP 0.15 per common share (approximately CAD$ 0.247), exercisable at any time until 1 February 2019. The proceeds of the Private

Placement will be used to accelerate the Company's field rehabilitation activities in Azerbaijan and increase the number of well workovers scheduled for completion by 31 March 2018. The Company also paid aggregate finders' fees of CAD$70k.

- On January 25, 2017 the Company issued 3,700,000 shares on the conversion of CHF 311k Swiss Francs (CAD$407k) principal amount of convertible notes.

Outstanding debt As of January 25, 2017	**CHF'000**	**CAD$'000**
Principal	315	412
Accrued Interest	250	328
Total to be paid	**565**	**740**

Conversion of notes	**Shares**	**CHF'000**	**CAD$'000**
Outstanding principal As of January 25, 2017		315	412
Issued January 2017	3,700,000	(311)	(407)
Remaining		**CHF 4**	**5**

Changes calculated using the following current change rate conversion (January 25, 2017)

Change Rate

CAD$/CHF	1.3084
CHF/CAD$	0.7643

The outstanding amount of convertible note, at the date of this document, is CHF4K ($5K) of principal, and CHF250K (CAD$328K) of accrued interest.

- On February 20, 2017 the Company announced the sale of its operations in Argentina to a group of local energy investors as explained on page 5.

- The Stock Options Plan (note 12 of the Financial Statement) has been approved by shareholders of the Company at the Annual General Meeting held on January 20, 2017

- On February 22, 2017 the Company announced that a Director of the Company had exercised 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 for a total cost of CAD$100K.

- On March 21, 2017 Gunsynd PLC elected to fully convert its £100k (CAD$164k) principal amount unsecured convertible note into common shares of the Company at the conversion price of CAD$0.10, as outlined in the Company's prospectus published on January 2017. Upon conversion of the convertible note 1,637,100 Common Shares will be issued to Gunsynd. This will completely eliminate Zenith's GBP convertible debt.

- On March 14, 2017 the Company issued 505,263 common shares in the capital of the Corporation at a deemed price of $0.1425 per common share, to settle certain debts owing by the Corporation. The Company further confirms that the debts have been fully paid, with the balance being settled in cash. The common shares issued pursuant to the Share Settlement are subject to a four-month hold period.

- On March 30, 2017 the Company acquired the Switzerland based company Altasol SA, and took over a loan subscrived by the the former owner on December 21, 2015 for the initial amount of CHF838k (CAD$ 1,119k). 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).

  As at March 31, 2017 the principal balance of the loan was CHF762k (CAD$ 1,018k) of which $67k is classified as a current liability and $951k is classified as long-term.

- On March 30, 2017 the Company acquiring the Switzwerland based Company Altasol SA, tookover in a loan subscrived by the the former owner on December 21, 2015 for the initial amount of CHF1,000k (CAD$ 1,336k). The loan bears interest at a rate of 2.2% per annum. The loan is repayable July 02, 2019 (plus accrued interest).

  As at March 31, 2017 the principal balance of the loan was CHF1,000k (CAD$ 1,336k) that is totally classified as a long-term liability
- On March 21, 2017 the Company issued 2,170,000 shares for the conversion of CHF 179k Swiss Francs (CAD$239k) principal amount of convertible notes.

Outstanding debt As of March 21, 2017	**CHF'000**	**CAD$'000**
Principal	4	5
Accrued Interest	250	335
Total to be paid	**254**	**340**

Conversion of notes	**Shares**	**CHF'000**	**CAD$'000**
Outstanding principal As of March 21, 2017		254	340
Issued March 2017	2,170,000	(179)	(239)
Remaining		**75**	**101**

Changes calculated using the following current change rate conversion)

<u>Change Rate</u>

CAD$/CHF	1.3377
CHF/CAD$	0.7475

The outstanding amount of convertible note, at the date of this document, is CHF75k Swiss Francs ($101k) of accrued interest.

Corporate and Administrative:

- The Company continues to improve its accounting and administrative functions within the organization.
- On November 21, 2016 the Company granted options to to certain of its directors and employees to acquire a total of 6,000,000 common shares pursuant to its Stock Option 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 November 21, 2021.

Subsequent event highlights:

(a) on April 16, 2017 the Company repaid USD $320k (plus accrued interest) (CAD $426k) relating the USD $320k General Line of Credit Agreement in Azerbaijan

(b) on April 16, 2017 the Company repaid USD $100k (plus accrued interest) (CAD $133k) relating the USD $200k General Line of Credit Agreement in Azerbaijan

(c) On April 6, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to an amount of USD$ 320k (CAD$424k). This Credit Agreement bears interest at a rate of 12% per annum and is repayable in 4 installments of USD$80k (CAD$106k) each (plus accrued interest) on 6 July 2017, 6 October 2017, 6 January 2018 and 6 April 2018.

(d) On April 12, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to an amount of USD$ 200k (CAD$265k). This Credit Agreement bears interest at a rate of 12% per annum and is repayable on April 12, 2018 (plus accrued interest).

(e) On May 17, 2017 the Company granted additional options to certain of its directors and employees to acquire a total of 2,750,000 common shares pursuant to its Stock Option Plan. Each option granted 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.

(f) During the subsequent months following the year's end some of the outstanding warrants expired, as follows: April 2017 no. 103,466; May 2017 no. 5,613,035 and June 2007 no. 1,817,332 all at the exercise price of $0.25 per share.

(g) On May 25, 2017 the Zenith announced that, following the it's announcement on February 22, 2017, a director of the group had exercised an option to acquire 1,000,000 new common shares in the capital of the Company. The option shares were issued on May 23, 2017 following confirmation by this director of the custodian to whom they should be issued.

OPERATIONAL UPDATE

ARGENTINA

The main assets of PPS on which the Company had initially focused its development efforts, were two producing fields, Alberto and Don Ernesto, (the "Producing Fields"). The two Producing Fields are located in the Patagonia region of Southern Argentina, and specifically in the San Jorge basin, Chubut Province, within the area of Comodoro Rivadavia. The ownership of these two fields was granted to PPS under old mining codes (the "Mining Codes") under which the licenses do not have an expiry date. The wells on the Producing Fields are connected to battery tanks through existing infrastructure, which is partially owned by PPS.

On February 20, 2017 the Company announced the sale of its operations in Argentina to a group of local energy investors. Due to a series of circumstances beyond the Company's control, caused by the collapse of a major storage tank owned by YPF (the Argentina's national oil company) , Zenith's Argentine operations was suspended and its oil production could no longer be transported through YPF pipelines.

The sale of the Company's Argentina subsidiary has been fixed at a nominal sum in recognition of the costs the new owner is expected to incur to return these fields to production. In addition, Zenith will no longer be liable for any environmental responsibilities or future well abandonment obligations for the Don Alberto and Don Ernesto fields.

ITALY

In August 2009, the Italian Ministry of Economic Development posted an invitation for bidding on three previously producing gas properties owned and operated by Eni, the Italian multinational oil and gas company. Zenith's wholly owned subsidiary, Canoel Italia Srl ("Canoel Italia"), participated in the bidding process for two properties and was later selected as one of the finalists for both.

On August 30, 2011, the Company announced that the Italian "Ministero per lo Sviluppo Economico" (the Ministry of Economic Development) confirmed in writing that Zenith's technical submission and proposal to re-establish production from the two properties was successful.

These two natural gas properties are in proximity to each other and are located in southern Italy, an area which is currently producing a large portion of Italian hydrocarbons. The first property, named "Torrente Vulgano", is located in the Puglia Region, while the second one, named "Canaldente", and is located in the Basilicata Region. Both properties are already connected to the Italian national gas distribution grid; therefore, there is no need to install new gas pipelines.

The Torrente Vulgano and Canaldente properties were previously produced by Eni. Before the agreement to return the field to the Ministry of Economic Development, in the last 4 years of production (1997-2000), the Torrente Vulgano property was producing an average of 7,900 standard cubic meters (m3) per day (278,949 standard cubic feet (mcf) per day, using a conversion rate of 1 m3 = 35.31 mcf).

Canoel Italia will have to comply with certain Italian regulatory obligations before field start-up. Production will commence after all the necessary approvals have been received, which the Company expects to occur by late 2016. However, there are no assurances that production of the Torrente Vulgano and Canaldente properties will be at the same levels that they were previously producing. It is worth noting that the Canaldente reservoir appears to be a good candidate for gas storage when the well will be eventually shut-in at the end of commercial production.

On August 27, 2011, Canoel Italia was approved in its role as operator by the Italian relevant authorities and is currently submitting environmental reports and conducting the final assessment of on-site equipment.

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

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

The Company's share of estimated total proved plus probable natural gas net reserves were assessed at 16,622 Mmscf and condensate net reserves were assessed at 261 Mbbls as of March 31, 2016.

AZERBAIJAN

On June 8, 2015, the Company and SOCAR (State Oil Company of Azerbaijan Republic) signed a confidential memorandum of understanding ("MOU") regarding the Muradhanli Area. Formal approval of the MOU was subsequently granted by the President of Azerbaijan through Decree No. 1439, dated October 7, 2015 ("Presidential Decree") which authorised SOCAR to prepare and execute a Rehabilitation, Exploration, Development and Production Sharing Agreement ("REDPSA") for the Muraxhanli Area between the Company and SOCAR on behalf of the Republic of Azerbaijan.

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

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

The term of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's development program. The term of each Area may be extended by an additional five years at the option of SOCAR.

On June 14, 2016 the Agreement on the Rehabilitation, Exploration, Development and Production Sharing ("REDPSA") for the Area Including the Muradkhanly, Jafarli and Zardab Oil Fields in the Republic of Azerbaijan has been ratified by the Azerbaijan Parliament.

In June 2016, the Company started the operation to establish Aran Oil Operating Company Ltd., an 80% owned subsidiary of Zenith Aran, to serve as operator of the REDPSA.

On June 24, 2016 the President of the Republic of Azerbaijan signed the REDPSA into law, after the approval by Parliament on the 14th of June 2016.

On August 11, 2016 the handover of the Azerbaijan assets, physicallycompleted in June 2016, formally completed with the necessary signatures on related documents, and the Company commenced crude oil production of approximately 275 barrels of oil per day in Azerbaijan under Zenith's ownership.

OTHER ACTIVITIES

In addition to its activities discussed above, the Company is constantly reviweing opportunities for potential acquisition of other oil and gas producing properties in estabilished oil production environments.

On March 30, 2017 the Company acquired a Swiss company, Altasol SA, paying an amount of CHF100 (CAD$134).

The acquired company does not have any oil and gas assets and was purchased with the intention of developing an oil trading subsidiary of Zenith Energy Ltd.

FINANCIAL PERFORMANCE

The following table summarizes key financial indicators for the three months and year ended March 31:

	Three months ended March 31		Year ended March 31	
	2017	2016	**2017**	2016
Oil and gas revenue, net of royalties ($'000)	**1,418**	111	**3,922**	1,698
Oil and gas revenue, net of royalties – per boe ($)	**52.81**	40.56	**54.66**	50.56
Total daily oil and gas sales volumes per boe	**298**	63	**197**	105
Electricity revenue($'000)	**94**	141	**574**	262
Electricity gas sales volumes per mcf ($)	**8.81**	7.84	**8.82**	8.82
Net income (loss) ($'000)	**(47,335)**	(5,568)	**567,378**	(7,674)
Net income (loss) per share – basic ($)	**(0.45)**	(0.14)	**8.15**	(0.23)
Net income (loss) per share – diluted ($)	**(0.45)**	(0.14)	**4.54**	(0.23)
Capital expenditures ($'000)	**309**	103	**413**	415
Weighted average number of shares – basic	**103,256,008**	39,435,277	**69,625,617**	33,015,721
Weighted average number of shares – diluted	**103,256,008**	57,774,291	**124,951,397**	55,009,357

- **The loss of the last quarter was largely caused by Italian impairment, loss on Argentinian disposal and a revision to the valuation of the Azeri assets as per the August 2016 CPR. In the Q1 report, the assets were valued on the basis of the March 2016 CPR. All these amounts are non-cash items, and loss is not related to the profitability of the Company**.

Production

	Three months ended March 31		Year ended December 31	
	2017	2016	**2017**	2016
Total volumes				
Oil (bbls) (1)	**25,954**	-	**66,866**	17,279
Condensate (bbls) (3)	**93**	230	**692**	906
Gas (mcf) (2)	**4,787**	14,966	**25,124**	92,345
Total oil and gas sales volumes (boe)	**26,845**	2,279	**71,746**	33,576
Electricity (gas) sales volumes (mcf)	**10,718**	17,943	**65,152**	26,695
Total sales volumes (boe)	**28,631**	5,720	**82,604**	38,525
Daily volumes				
Oil (bbls/day) (1)	**288**	-	**184**	47
Condensate (bbls/day)	**1**	3	**2**	2
Gas (mcf/day)	**53**	164	**69**	252
Total daily oil and gas sales volumes	**298**	30	**197**	92
Daily gas sales volumes for electricity	**119**	197	**178**	81
Total daily sales volumes (boe/day)	**318**	63	**227**	105

- During the three months and year ended March 31, 2017 the Company sold 25,954 and 68,866 bbls of oil from its properties in Azerbaijan. This data is not comparable to the prior year.

  It is important to note that the data regarding the year 2017 includes oil production in Azerbaijan from August

11, 2016 to March 31, 2017.

At the end of March 2017, there were 272 bbls of unsold oil production in Azerbaijan held in inventory which were sold in subsequent months. Total oil sales, transfers of produced volumes to the Termap Oil Storage and oil held in inventory at the end of the period correspond to an average daily production rate for the three months ended March 31, 2017 of 281 bbls of oil per day. The average daily production rate is not comparable with the prior year.

- During the three months and year ended March 31, 2017, the Company sold 4,787 and 25,124 mcf of natural gas from its Italian properties as compared 14,966 and 92,345 mcf of natural gas in the 2016 similar periods, with a decrese of 68% and 73%. The predominant reason for the decrease is a change in classification from gas to electricity from the Torrente Cigno concession. Prior to October 1, 2015, the Company sold its 45% share of this gas to the previous electricity producer and included such sales in oil and gas revenues. Following the Company's acquisition of co-generation equipment and facilities on October 1, 2015, the Company became an electricity producer and now classifies its 45% share of Torrente Cigno gas production as sales volumes for electricity.

- During the three months and year ended March 31, 2017, the Company sold 93 and 692 bbls of condensate from its Italian properties as compared to 230 and 906 bbls of condensate in the 2016 similar periods, with a decrease of 12% and 11% respectively.

  During the three months and year ended March 31, 2017, the Company sold 1,524 and 9,636 MWh of electricity from its Italian properties as compared to 2,636 MWh of electricity in the three months ended March 31, 2016 with a decrease of 42%, due a production disruption of 40 days in the Torrente Cigno concession, for extraordinary and adverse weather conditions. The electricity production in Italy started on October 1, 2015 and therefore values relating the two years are not comparable.

<u>Argentina Oil production</u>

There was no oil production or sales during year as a result of a the collapse of a storage tank (state owned) that occurred in late 2015, used by the company, and the subsequent extended suspension of production.

On February 20, 2017 the Company announced the sale of its operations in Argentina to a group of local energy investors.

<u>Azerbaijan Oil production</u>

On March 16, 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into the REDPSA with SOCAR and SOA. The REDPSA covers 642 square kilometres which include the active Muraxkhanli, Jafarli and Zardab oil fields located in the Lower Kura Region, about 300 kilometres inland from the city of Baku (the "Azerbaijani Operations").

The delivery of the capital assets, previously used in respect of the petroleum operations at the Azerbaijani Operations, from the previous operating company to Aran Oil, was officially completed on August 11, 2016, and the production started under Zenit's ownership. The Company now has operational control of the Azerbaijani Operations. The transfer of operational control did not involve any interruption of petroleum production.

Following successful handover on August 11, 2016 production under Zenith ownership commenced at the Azeri operations. During the period from August 11 to September 30, 2016 the Company achieved a production of about 275 barrels of oil per day. Gas is also produced, but in low quantities and is used at the sites.

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.

In the subsequent months the Company has achieved an increase of production.

During the three and twelve months ended March 31, 2017, the Company sold 25,954 and 68,866 bbls of oil from its properties in Azerbaijan. This data is not comparable to the prior year.

It is important to note that the data regarding the twelve months includes only the oil production from August 11, 2016 to March 31, 2017.

Italy Gas Production

During the three months and year ended March 31, 2017, the Company sold 4,787 and 25,124 mcf of natural gas from its Italian properties as compared 14,966 and 92,345 mcf of natural gas in the 2016 similar periods, with a decrese of 68% and 73%. The predominant reason for the decrease is a change in classification from gas to electricity from the Torrente Cigno concession. Prior to October 1, 2015, the Company sold its 45% share of this gas to the previous electricity producer and included such sales in oil and gas revenues. Following the Company's acquisition of co-generation equipment and facilities on October 1, 2015, the Company became the new electricity producer and now classifies its 45% share of Torrente Cigno gas production as sales volumes for electricity.

Daily gas sales volumes for electricity from Torrente Cigno per day for three months and year ended March 31, 2017 were respecitively 114 mcf/d and 177 mcf/d.

Italy Condensate Production

During the three months and year ended March 31, 2017, the Company sold 208 and 807 bbls of condensate from its Italian properties as compared to 230 and 906 bbls of condensate in the 2016 similar periods, with a decrease of 10% and 11% respectively.

Italy Electricity production

During the three months and year ended March 31, 2017, the Company sold 1,524 and 9,636 MWh of electricity from its Italian properties as compared to 2,636 MWh of electricity in the three months ended March 31, 2016 with a decrease of 42%, due a production disruption of 40 days in the Torrente Cigno concession, for extraordinary and adverse weather conditions. The electricity production in Italy started on October 1, 2015 and therefore no values relating the 9 months are comparable.

Prior to October 1, 2015, the Company sold its gas volumes from the Torrente Cigno area in Italy for approximately $1.44/mcf to the previous owner of the co-generation plant who then converted the gas to electricity and as a result earned a much higher rate. The Company acquired this plant on October 1, 2015 to improve revenue generation and margins. Although the Company continues to supply its Torrente Cigno gas volumes to the co-generation plant, as plant owner, the Company now earns higher revenues on those gas volumes.

The Electricity production remained steady for all the quarters since the cogeneration plant acquisition, as detailed in the following table.

Italy Electricity Production	Production MWh
I quarter 2017	2,718
II quarter 2017	2,620
III quarter 2017	2,774
IV quarter 2017	1,524

Revenues

	Three months ended March 31		Year ended March 31	
	2017	2016	**2017**	2016
Commodity Prices				
Gain Oil and gas prices				
Oil (Argentina $/bbl)	**-**	-	**63.08**	74.31
Oil (Azerbainan $/bbl)	**53.58**	n.a.	**57.41**	n.a.
Condensate ($/bbl)	**79.52**	56.62	**67.94**	69.55
Gas ($/mcf)	**7.45**	6.51	**5.79**	5.05
Total oil and gas ($/boe)	**52.81**	40.56	**54.66**	54.00
Electricity ($/mcf)	**8.81**	7.84	**8.82**	8.82
Revenues (CAD$'000)				
Oil and gas revenue				
Oil (Argentina)	**-**	-	**72**	1,284
Oil (Azerbainan)	**1,393**	n.a.	**3,772**	n.a.
Condensate (Italy)	**7**	13	**47**	63
Gas (Italy)	**18**	97	**31**	466
Total oil and gas (CAD$)	**1,418**	110	**3,922**	1,813
Electricity (CAD$)	**94**	141	**574**	262
Total (CAD$)	**1,512**	251	**4,496**	2,075

Oil Revenue

Gross oil revenue earned in Argentina was $73k for the year ended March 31, 2017 versus $1,284k in 2016. The decrease in oil production and sales is a result of lost production due to the collapse of a storage tank (state owned) which occurred in late 2015 and the subsequent temporary interruption of production . On February 20, 2017 the Company announced the sale of its operations in Argentina to a group of local energy investors.

Gross oil revenue earned in Azerbaijan was $1,393k and $3,771k for the three months and the year ended March 31, 2017. These periods are not comparable with prior year similar periods since the Company's production in Azerbaijan commenced on August 11, 2016.

Condensate Revenue

The price per bbl received for condensate during the three months and year ended March 31, 2017 was $79.52 per bbl and $67.94 per bbl, respectively, as compared to $56.62 per bbl and $69.55 per bbl earned on condensate sales during the three months and year ended March 31, 2016, respectively. The condensate price per bbl in the last three months is higher in the 2017 period due to an increase in the base price of Brent crude which is used in the formulas to establish the price of condensate.

Gas Revenue

The price per mcf received for natural gas is higher in the three months and year ended March 31, 2017 as compared to the three months and year ended March 31, 2016 due primarily to the effect of gas sales volumes from the Torrente Cigno area being reclassified to the electricity market .

In general, gas prices are also impacted by fluctuations in the base price of Europens gas rates which is used in the formulas to establish the price of natural gas.

Electricity Revenue

The difference in the gross revenues achieved is only for the electricity selling price that is determed by the market.

Italy Electricity Production	Production MWh	Gross Revenues	Average Price CAD$/MWH
I quarter 2017	2,718	$ 140,813	$ 51.80
II quarter 2017	2,620	$ 141,848	$ 54.14
III quarter 2017	2,774	$ 194,767	$ 70.21
IV quarter 2017	1,524	$ 96,747	$ 63.48

In the fourth quarter of the 2017 fiscal year, the selling price was lower than the previous quarters due to the lower average price collected from the market in the period. Due to bad weater conditions in the South of Italy and the related problems, production was stopped from January 10 to February 15, 2017.

Royalties and Operating Expenses

	Three months ended March 31		Year ended March 31	
	2017	2016	**2017**	2016
Royalties ($)	**-**	**-**	**7,211**	115,408
% of Argentine revenues (1)	**-**	**-**	**9%**	9%
$/bbl of oil	**-**	**-**	**0.11**	6.68
$/boe (total Company)	**-**	**-**	**0.09**	3.00
Operating and transportation ($'000)				
Argentina	**37**	-	**583**	1,112
Azerbaijan	**1,677**	-	**2,699**	-
Italy	**99**	454	**334**	692
Total	**1,813**	454	**3,616**	1,804
Argentina $/bbl	**-**	16.36	**-**	64.34
Azerbaijan $/bbl	**64.61**	-	**41.07**	-
Italy $/boe	**37.15**	11.83	**21.25**	32.59
Total $/boe	**63.31**	14.77	**43.78**	46.83

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

Royalties

Royalties in the three months and year ended March 31, 2017 are not comparable to the three months and year ended March 31, 2017 due to the lack of sales during the quarter in Argentina.

No royalties are charged on Azerbaijan oil production and on Italian gas and condensate production.

Operating and transportation costs

In Argentina, no operating costs per bbl were recorded in the three months to March 31, 2017, and operating costs were higher for year ended March 31, 2017 due to the costs for maintenance and attempt to restart the production.

Operating costs per boe in Italy for the three months and year ended March 31, 2017 (CAD$583k) are lower than the same period of the prior year (CAD$1,341) due to the lack of production (see note 28 of the Financial Statements). Certainly the costs per barrel is higher due to the poor production of the year ended March 31, 2017.

Netbacks

	Three months ended March 31		Year ended March 31	
	2017	2016	**2017**	2016
Argentina ($/bbl)				
Revenue	**-**	**-**	**66.87**	74.31

Royalties	**-**	**-**	**(0.50)**	(6.68)
Operating expenses	**-**	**-**	**(231.40)**	(64.34)
Field netback	**-**	**-**	**(165.03)**	3.29
Azerbaijan ($/bbl)				
Revenue	**53.58**	**-**	**57.38**	**-**
Operating expenses	**(64.61)**	**-**	**(41.07)**	**-**
Field netback	**(11.03)**	-	**16.31**	-
Italy ($/boe)				
Revenue	**44.72**	43.94	**41.47**	37.24
Operating expenses	**(37.15)**	(79.35)	**(21.25)**	(32.59)
Field netback	**7.57**	(35.41)	**20.22**	4.65
Total Company ($/boe)				
Revenue	**52.75**	43.94	**54.43**	53.86
Royalties	**-**	-	**(0.09)**	(3.00)
Operating expenses	**(63.31)**	(79.35)	**(43.78)**	(46.83)
Field netback	**(10.56)**	(35.41)	**10.56**	4.03

General and Administrative Expenses ("G&A")

General and administrative expenses for the three months and year March 31 are composed of the following:

	Three months ended March 31		**Year ended March 31**	
	2017 CAD$'000	2016 CAD$'000	**2017 CAD$'000**	2016 CAD$'000
Professional fees	**587**	689	**1,905**	1,118
Office	**(35)**	182	**321**	568
Administrative	**130**	123	**356**	503
Salaries and benefits	**148**	95	**1,037**	433
Travel	**514**	27	**953**	476
	1,344	1,116	**4,572**	3,098

G&A expenses increased by 20% in the three months ended March 31, 2017 versus the 2016 comparative period and increased by 53% in the twelve months ended March 31, 2017 versus the 2016 comparative period. Included in the General and Administrative expenses are ncluded non-recurrent expenses, relative to the acquisition of the producing oil assets and the admission to the London Stock Exchange listing, for an amount of about CAD$2 million as well as a non-cash charge of C$290k in relation to the award of the 6,000,000 options.

Professional fees were higher in the three months and year ended March 31, 2017 due to business development and fundraising activities. Office expenses are higher in the three months and year ended March 31, 2017 than the 2016 comparative periods due to an increase in Canadian, Azerbaijan, Italian and Argentine office costs. Administrative expenses were higher in the three months and year ended March 31, 2017 due to director fees charged in Italy for which there are no charges in the 2016 periods.

Salaries and benefits are higher in the three months and year ended March 31, 2017 than the comparative 2016 period due to the addition of a senior executive salaries in Azerbaijan. Travel costs are higher in the three months and year ended March 31, 2017 due to an increase in travel activities, particularly in relation to negotiations in Azerbaijan and the establishment of an Azerbaijan office, and for the Admission to the London Stock Exchange listing.

No general and administrative expenses were capitalized in the three months and year ended March 31, 2017 and

2016.

Depletion and depreciation

	Three months ended March 31		Year ended March 31	
	2017 **CAD$'000**	2016 CAD$'000	**2017** **CAD$'000**	2016 CAD$'000
Argentina	**-**	6	**11**	64
Azerbaijan	**793**	n.a.	**1,114**	n.a.
Italy	**-**	76	**185**	268
Other	**-**	-	**-**	
Total	**793**	82	**1,309**	332
Argentina $/bbl	**-**	-	**9.75**	3.71
Azerbaijan $/bbl	**30.54**	-	**16.94**	-
Italy $/boe	**-**	13.36	**11.76**	12.59
Other $/boe	**n.a.**	n.a.	**n.a.**	n.a.
Total $/boe	**30.54**	14.40	**15.85**	8.61

The depletion rate for Argentine properties in the twelve months ended March 31, 2017 is lower than the comparative 2016 period due to no oil production in the 2016 period.

The depletion rate for the Italian properties in the twelve months ended March 31, 2017 is lower than comparative 2016 period due to the impairment of the Italian assets calculated in 2017.

Oil production commenced in Azerbaijan during the period. There is no 2016 comparative period.

The Company impairment the value of its Italian or CGUs as at March 31, 2017 is in line with the valuation placed on the reserves in the Chapman's Competent Person's Report of August 2016

Net income (loss)

The Company reported net loss of ($47,335K) and net income of $567,378K for the three and twelve months ended March 31, 2017 versus net losses of ($5,568K) and ($7,674K) for the three and twelve months ended March 31, 2016.

The loss of the last quarter was largely caused by Italian impairment, loss on Argentinian disposal and a revision to the valuation of the Azeri assets per the August 31, 2016 CPR. In the Q1 accounts the assets were valued from the March 31, 2016 CPR. All these amounts are non-cash items, and loss is not related to the profitability of the Company.

SUMMARY OF QUARTERLY INFORMATION

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

	Net revenue CAD$'000	**Net income (loss)** CAD$'000	**Per share** * $
2017			
Fourth quarter ended March 31, 2017	1,512	(47,335)	(0.41)
Third quarter ended December 31, 2016	1,924	(1,556)	(0.03)
Second quarter ended September 30, 2016	818	(1,150)	(0.02)
First quarter ended June 30, 2016	242	617,419	0.11
2016			
Fourth quarter ended March 31, 2016	251	(5,568)	(0.14)
Third quarter ended December 31, 2015	284	(889)	(0.03)
Second quarter ended September 30, 2015	525	(869)	(0.03)

First quarter ended June 30, 2015	899	(348)	(0.01)

The sum of quarterly amounts per share may not add to the year-to-date figure due to rounding.

- The loss of the last quarter of the year ended March 31, 2017 was largely caused by Italian impairment, loss on Argentinian disposal and a revision to the valuation of the Azeri assets per the August 2016 CPR. In the Q1 statements, the assets were valued from the March 2016 CPR. All these amounts are non-cash items, and loss is not related to the profitability of the Company.
- In the third quarter of fiscal 2017 the Company recorded the first full quarter of the oil production in Azerbaijan, which has been very consistent; in fact the revenues of the Company are more than double than those of the last 10 quarters.
- In the second quarter of fiscal 2017, following successful handover on August 11, 2016, production under Zenith ownership commenced at the Azeri operations. Production has been relatively consistent at approximately 275 barrels per day resulting in total production of 14,010 bbls for the period and gross revenue of CAD $659,000
- Net revenues decreased in the first quarter 2017 due to a lack of oil sales in Argentina. Net loss excluding gain on business combination increased due to the decrease in net revenues combined with an increase in general and administrative expenses.
- Net revenue decreased in the fourth quarter 2016 due to a lack of oil sales in Argentina, partially offset by an increase in electricity revenue in Italy. Net loss increased due primarily to an increase in G&A expenses and inventory impairment and a $5,025k impairment related to the Company's Italian properties.
- Net revenue decreased in the third quarter ended December 31, 2015 due to a decrease in sales volumes, primarily oil sales volumes, combined with a decrease in the price earned for oil. Net loss increased due to the decrease in net revenues combined with an increase in general and administrative expenses.
- Net revenue decreased in the second quarter ended September 30 , 2015 due to a decrease in sales volumes and in commodity prices for natural gas and NGLs. Net loss increased due to the decrease in net revenues combined with an increase in operating costs.
- Net revenue decreased in the first quarter ended June 30, 2015 due to a decrease in both sales volumes and commodity prices. Net loss decreased as compared to the previous quarter due a decrease in general and administrative expenses and a net foreign exchange gain in the quarter.

LIQUIDITY RISK AND CAPITAL RESOURCES

As at March 31, 2017 the Company has working capital of $1,032k (March 31, 2016 – deficit ($6,709k)), negative cash flows from operating activities from continuing operations of $1,348k (March 31, 2016 - $2,088k) and an accumulated surplus of $572,101k (March 31, 2016 - deficit – ($13,646k)). During the three and twelve months ended March 31, 2017, the Company incurred in respectively $309k and $413k on capital expenditures.

As of March 31, 2017, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying Amount	Contractual cash flow	Due on or before 31 March 2018	Due on or before 31 March 2019	Due after 31 March 2019
	CAD $'000	CAD $'000	CAD $'000	CAD $'000	CAD $'000
Trade and other payables	2,912	2,912	2,912	-	-
Loan payable	5,500	6,620	997	3,110	2,513
Bonds payable	385	423	45	378	-
	8,797	9,955	3,954	3,485	2,513

Note: the deferred consideration payable related to opportunities of development in Azerbaijan for the Company, but they are not commitments.

SUBSEQUENT EVENTS

- **a)** on April 16, 2017 the Company repaid USD $320k (plus accrued interest) (CAD $426k relating the USD $320k General Line of Credit Agreement in Azerbaijan
- **b)** on April 16, 2017 the Company repaid USD $100k (plus accrued interest) (CAD $133k) relating the USD $200k General Line of Credit Agreement in Azerbaijan
- **c)** On April 6, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to an amount of USD$ 320k (CAD$424). This Credit Agreement bears interest at a rate of 12% per annum and is repayable in 4 installments of USD$80k (CAD$106k0) each (plus accrued interest) on 6 July 2017, 6 October 2017, 6 January 2018 and 6 April 2018.
- **d)** On April 12, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to an amount of USD$ 200k (CAD$265k). This Credit Agreement bears interest at a rate of 12% per annum and is repayable on April 12, 2018 (plus accrued interest).
- **e)** On May 17, 2017 the Company granted additional Options to certain of its Directors and employees to acquire a total of 2,750,000 Common Shares pursuant to its Stock Option Plan. Each Option granted 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.
- **f)** During the subsequent months following the year's end some of the outstanding warrants expired, as follows: April 2017 no. 103,466; May 2017 no. 5,613,035 and June 2007 no. 1,817,332 all at the exercise price of $0.25 per share.
- **g)** On May 25, 2017 the Group announced that following the it's 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 this Director of the custodian to whom they should be issued.

GOING CONCERN

The Group's business activities, together with facts likely to affect its future operations and financial and liquidity positions are set out in the Chairman's Statement and Strategic Report and also note 1 of the financial statements. In addition, note 22) to the financial statements discloses the Group's financial risk management policy and note 1 details out further considerations made by the Director in respect of going concern.

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. 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 annual financial statements.

SHARES AND CONVERTIBLE, EXERCISABLE AND EXCHANGEABLE SECURITIES

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

As at March 31, 2017 and the date of this MD&A, the Company's issued share capital and the outstanding securities that are convertible or exercisable for any voting or equity securities of the Company are as follows:

	Number of common shares	Number of warrants	Number of stock options
Balance – March 31, 2016	43,594,406	29,638,898	–
Issued	71,982,824	27,357,00	6,000,000
Excercised	-	-	(1,000,000)
Expired	–	–	–

Balance – March 31, 2017	115,577,230	56,995,908	5,000,000
Issued	1,000,000	-	2,750,000
Expired	–	(7,533,833)	–
Balance – Date of MD&A	116,577,230	49,462,075	7,750,000

NUMBER OF COMMON SHARES

(a) On April 11, 2016 the Group completed the private placement of 6,674,775 shares at CAD$0.08 per unit for gross proceeds of CAD$534k. Of the 6,674,775 shares, 5,000,000 shares were issued forming part of a unit comprising one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD$0.15 per common share for a period of 24 months from the date of issuance. The remaining 1,674,775 shares were not issued with accompanying warrants. The Group also paid aggregate finders' fees of CAD$27k.

(b) On April 21, 2016, the Group completed the private placement of 3,892,875 shares at CAD$0.08 per unit for gross proceeds of CAD$311k. Each unit is comprised of one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD$0.15 per common share for a period of 24 months from the date of issuance. The Group also paid aggregate finders' fees of CAD$15k and issued 179,712 warrats to certain arm's-length parties in the connection with the Private Placement.

(c) On June 9, 2016, the Group issued 2,730,000 shares at a deemed price of $0.11 per share in partial conversion of convertible notes $300k (Note 10), and 312,500 shares at a price of $0.10 per share creditors of the Corporation to settle debts owing by the Group totalling $31k.

(d) On June 16, 2016 the Group has closed a non-brokered private placement of 1,519,250 shares of the Group at a price of $0.08 per Unit for aggregate gross proceeds of $122k. Each unit is comprised of one common share and one common share purchase warrant. Each Warrant will be exercisable for one Common Share at a price of $0.15 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD$6k.

(e) On 10 October 2016 the Group closed a non-brokered private placement of 1,906,050 Common Shares at a price of CAD $0.10 per unit for aggregate gross proceeds of CAD $191k. Each unit is comprised of one Common Share and one common share purchase warrant. Each common share purchase warrant will be exercisable for one Common Share at a price of CAD $0.20 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD$10k.

(f) On 19 October 2016, the Group issued 724,235 Common Shares at a deemed price of CAD $0.085 per Common Share to certain debtholders and creditors of the Group to settle debts owing by the Group, representing an aggregate of CAD $62k. In addition the Group issued 325,000 Common Shares at a deemed price of $0.08 per share, to a service provider to settle debts owing by the Group, representing an aggregate of CAD $26k.

(g) On November 7, 2016, the Group closed a non-brokered private placement of 2,745,062 Common Shares at a price of CAD $0.12 per unit for aggregate gross proceeds of CAD $329k. Insiders of the Group subscribed for an aggregate of 2,195,475 units for aggregate subscription proceeds of CAD $263k. Each common share purchase warrant will be exercisable for one Common Share at a price of CAD $0.20 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD$4k.

(h) On November 30, 2016, the Group issued 150,000 Common Shares to certain debtholders and creditors of the Group (based on a price of CAD$ $0.08 per share Common Share) in settlement of a debt of GBP £7k (inclusive of accrued interest) owed by the Group in respect of services.

(i) On January 5, 2017 - The Group announced that the Prospectus dated January 5, 2017 has been approved by the UK Listing Authority (the "Prospectus"). The Prospectus relates to admission of the Group's Common Shares to the standard listing segment of the Official List and to trading on the London Stock Exchange's Main Market ("Admission"). Admission and commencement of dealings in the Group's Common Shares did occur on 11 January 2017.

In connection with Admission, the Group successfully placed 33,322,143 Common Shares (the "UK Placing"). Following its book-building process, in which Common Shares were placed at £0.07 (CAD$0.11) per Common Share, on completion of the UK Placing the gross proceeds available to the Group were approximately £2,333k (CAD$3,783k) and the net proceeds were approximately £2,016k (CAD$3,305k). The Group paid finder's fees of GBP 114k ($200k) and issued 1,114,286 broker warrants exercisable for 24 months from closing at a price of GBP 0.07 per common share to certain arm's-length parties under the private placement undertaken as part of the dual listing on the London Stock Exchange on 11 January 2017.

(j) In January 2017 the Group issued 668,571 shares, at a deemed price of £0.07 per share, for the settlement of a debt for services of a senior manager of the Company, for an amount of £47k ($78).

(k) In January 2017 the Group entered into an agreement to proceed with a brokered private placement (the "Private Placement") to raise gross proceeds of GBP 855k (approximately CAD$ 1,399k) through the issue of nine million (9,000,000) new common shares of the Group at a price of GBP 0.095 (approximately CAD$ 0.1565) per share. In addition to the New Common Shares, under the Private Placement each subscriber received one warrant (the "Warrant") for every New Common Share purchased. Each Warrant shall entitle the Warrant holder to subscribe for new Common Shares in the Group at a price of GBP 0.15 per common share (approximately CAD$ 0.247), exercisable at any time until 1 February 2019. The Company also paid aggregate finders' fees of CAD$70k.

(l) On January 30, 2017 the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 3,700,000 Common Shares of Zenith with an aggregate value of CDN$ 407k (approximately £247k). The terms of this conversion were comprehensively outlined in the Prospectus issued by the Group on January 2017, stating that the conversion mechanism requires a conversion price of CDN$ 0.11 (£0.0677).

(m) On March 14, 2017 the Group issued 505,263 common shares in the capital of the Corporation at a deemed price of $0.1425 per Common Share, to settle certain debts owing by the Corporation. The Group further confirms that the debts have been fully paid, with the balance being settled in cash. The Common Shares issued pursuant to the Share Settlement are subject to a four-month hold period.

(n) On March 21, 2017 Gunsynd PLC has elected to fully convert its GBP£100k principal amount unsecured convertible note into common shares of the Group at the conversion price of CAD$0.10, as outlined in the Group's prospectus published on January 2017. Upon conversion of the Convertible Note 1,637,100 Common Shares will be issued to Gunsynd. This fully extinguishes Zenith's GBP convertible debt.

(o) On March 21, 2017 the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 2,170,000 Common Shares of Zenith with an aggregate value of CDN$ 239k (approximately £143k). The terms of this conversion were comprehensively outlined in the Prospectus issued by the Group on January 2017, stating that the conversion mechanism requires a conversion price of CDN$ 0.11 (£0.06588).

Post Balance Sheet Event

p) On May 25, 2017 the Company announced that following the Company's announcement on February 22, 2017 that a Director of the Company had exercised an option to acquire 1,000,000 new Common Shares in the capital of the Company, the Option Shares have been issued on May 23, 2017 following confirmation by this Director of the custodian to whom they should be issued.

NUMBER OF WARRANTS

As at 31 March 2017, the Group had 59,995,908 warrants outstanding (relating to 59,995,908 shares) and exercisable at a weighted average exercise price of $0.21 per share with a weighted average life remaining of 1.80 years.

Subsequent to March 31, 2017 there warrant expirations, as follows: April 2017 no.103,466 warrants; May 2017 no.5,613,035 warrants and June 2017 no.1,817,332 warrants, all had an exercise price of $0.25 per share.

NUMBER OF STOCK OPTIONS

The Group has a share option plan (the "**Plan**") for the benefit of 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.

	Number of options	Weighted average exercise price
Balance – 31 March 2015	175,000	$ 1.00
Expired	(175,000)	(1.00)
Balance – 31 March 2016	-	-
Granted	6,000,000	0.10
Exercised	(1,000,000)	(0.10)
Expired	-	-
Balance – 31 March 2017	5,000,000	0.10
Granted May 17, 2017	2,750,000	0.15
Balance – 31 March 2017	7,750,000	0.12

On November 18, 2016 the Group granted Options to certain of its Directors and employees to acquire a total of 6,000,000 Common Shares pursuant to its Stock Option 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 Group at the Annual General Meeting held on January 20, 2017
On February 22, 2017 the Group announced that a Director of the Group has announced the intention to exercise his stock options to purchase 1,000,000 common shares in the capital of the Group at a price of CAD$0.10 per Common Share and a total cost of CAD$100k.

On May 17, 2017 the Group granted additional Options to certain of its Directors and employees to acquire a total of 2,750,000 Common Shares pursuant to its Stock Option Plan. Each Option granted 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 May 25, 2017 the Group announced that following the Group's announcement on February 22, 2017 that a Director of the Company 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. this Director of the custodian to whom they should be issued.

RELATED PARTY TRANSACTIONS

Related party transactions during the three months and year ended March 31, 2017 and 2016 not disclosed elsewhere in this MD&A are as follows:

a) Included in general and administrative expenses for the year ended 31 March 2017 is CAD $195k (2016 – CAD $282k) charged by a director of the Company for office rent and administrative services. As at 31 March 2017, CAD $ nil (2016 – CAD $Nil) was included in trade and other payables in respect of these charges.

b) Included in trade and other payables is CAD $ nil (2016 – CAD $52k) due to officers and directors of the Company in respect of short term, non-interest bearing advances made to the Company.

c) Included in trade and other payables is CAD $ nil (2016 – CAD $9k) due to officers and directors of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officers and directors will be reimbursed.

d) Included in trade and other payables is CAD $ nil (2016 – CAD $30k) due to officers and directors of the Company in respect of salaries.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet financing arrangements.

OUTLOOK

As noted earlier, the Company's cash and cash equivalent balance is not sufficient to meet the Company's obligations and additional funds will have to be raised through the issuance of debt and equity financing. There is no assurance that such additional funds can be raised on reasonable terms, or at all.

The Company plans to continue to focus on both international oil and natural gas exploration opportunities as well as continuing its search for smaller producing assets in North America, Italy and Azerbaijan. Management intends to focus its efforts toward acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator.

The Company's plans for fiscal 2017 include:

(a) Italy: After the acquisition of 9 producing licenses and 4 exploration applications from Mediterranean Oil & Gas Plc., Zenith has evaluated drilling opportunities on these permits and will formalize plans to either participate directly in such potential operations or farm-out its interest to third parties. The company's technical team has conducted in depth geological, geophysical and engineering evaluations on all these properties. Natural gas from two properties which is not suitable for transportation in the national pipeline grid will now be produced to generate electricity with the use of gas turbines. New seismic data has defined a very interesting structure on the Macchia Nuova property and plans are being made to drill this prospect in the future. Drilling plans for side-track drilling operations at the Masseria Petrilli property and drilling of a new well at the San Teodoro field are also being evaluated. These activities are expected to increase Zenith's gas production in Italy.

Submission of extensive environmental reports relating to the commencement of production of the Torrente Vulgano and Canaldente gas properties has been completed and preliminary approval has been received. The Company is now looking forward to finally place on production these wells after the final approval is received. Production of natural gas from the Torrente Vulgano and Canaldente properties is now expected to commence in late 2017.

Improvements of facilities at San Teodoro will be completed by the tie-in of new dehydration equipment. While the field has been capable of production, a lack of regional infrastructure had limited additional expansion in the past. In December 2014, Zenith reached an agreement with Basengas S.r.l., a successful retail marketer of natural gas within Italy, to handle forthcoming production from this 100% owned field, which is anticipated to restart production in December 2017. Production from the existing wellbore is expected to commence at 3,000 cubic meters/day (106 mcf/d or 18 boed), increasing Zenith's current daily production in Italy by 25%, to over 100 boepd. Costs of the refurbishment and commencing production are anticipated at €300,000 and will be paid through an equipment leasing facility.

Zenith is also evaluating the possibility of drilling a deviated well into the crestal area of the Torrente Salsola structure, where the Company has a 100% working interest, in order to unlock residual reserves. The

Company has an ambitious program to enhance the Italian daily gas production rate in the Puglia Region by 100% through a technical program employing additional workovers.

Zenith is planning to implement an innovative plan for the exploitation of the Traetta 1 well in the Masseria Grottavecchia concession (20% working interest) through the sweetening of the produced gas so that it can be sold through the national pipeline grid. This development plan will be submitted to the Ministry, for its analysis and required prior approval. Approval is expected to be received in September 2017.

(b) **Azerbaijan:** On June 20, 2016, the REDPSA ("Rehabilitation, Exploration, Development and Production Sharing Agreement") for the Area in the Republic of Azerbaijan was ratified by the Parliament of the Republic of Azerbaijan and converted into an official law of the country signed by the President of the Republic of Azerbijan. The Area covers an area of 642.4 square kilometres, and at the time of the formal finalitazion of the transaction the production in Azerbaijan was about 275 barrels per day of oil, having however produced significantly larger quantities in previous years. Minor quantities of natural gas are also produced and used at the site. In the subsequent months the Company has achieved an increase of production. The current production from the assets in Azerbaijan is about 295 barrels of oil per day.

The term of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's development program. The term of each Area may be extended by an additional five years at the option of SOCAR.

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

On August 11, 2016 the handover of the Azerbaijan assets, physically completed in June 2016, was formally completed with the necessary signatures on related documents and the Company commenced crude oil production of approximately 275 barrels of oil per day in Azerbaijan under Zenith's ownership. The Company plans to evaluate the performance of key wells and will then implement a program of work-overs and facilities improvements.

The Company sells its oil through the SOCAR's Marketing and Operations Department ("SOCARMO"). A related commission of 1% of total sales is payable to SOCARMO.

Between 2017 and 2019, 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 optimised treatments. It is estimated that 10 wells will be worked over in 2017, 16 wells in 2018 and 18 wells in 2019. This programme has commenced using the existing workover rig in the field and the Company intends to purchase an additional modern workover rig to optimise the workover of the wells, within the next four years.

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 2017 and to be returned to production once the existing wellbore and sand production issues have been resolved.

The Company intends to acquire one modern drilling rig capable of drilling 4,500m to carry out a fifteen year drilling programme. It is anticipated that five new wells will be drilled in 2018 and ten wells in each year thereafter until the anticipated drilling programme is complete in 2032.

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 averaging $50k per well, using the existing workover rig.

It is anticipated that in 2017 five shut-in wells completed in the Maykop formation will be worked over to control sand production, at an estimated cost of US$100k per well, and returning to an increase of production at a total of 200STBl/d.

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

It is envisaged that development drilling will commence in 2018 and continue until 2032. It has been estimated that each well with proved reserves will cost approximately US$4,000k. 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 competent professional, with a high degree of certainty to be recoverable. The estimate of the reserves are 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 modernisation 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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the ordinary course of business, the Company and its subsidiaries may enter into contracts which contain indemnification provisions, such as service agreements, leasing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, and land use agreements. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

The Company subleases premises in London, UK, under an operating lease on a month to month basis which requires payments of approximately CAD$50k per annum.

BUSINESS RISKS AND UNCERTAINTIES

The Company has production operations in Azerbaijan and Italy, and focuses the majority of its activities on exploration in these countries. Some of the Company's operations and related assets are located in countries which carry a higher degree of political and economic risk.

Oil and natural gas are commodities whose prices have fluctuated widely in recent years and are determined based on world demand, supply and other factors, all of which are beyond the control of the Company.

The Company operates in the petroleum, natural gas and electricity industry which is subject to numerous risks that can affect the amount of cash flow from operating activities and the ability to grow. These risks include but are not limited to:

- Global economic uncertainty;
- Risks associated with operating in foreign jurisdictions;
- Competition with more established companies and the availability of services;
- Volatility in commodity pricing, exchange and interest rates;
- Government and regulatory risk with respect to royalty and income tax regimes;
- Operation risks that may affect the quality and recoverability of reserves;

- Geological risks associated with accessing and recovering new quantities of reserves;
- Ability to capitalize on farm-in and farm-out opportunities as they arise;
- Production risks associated with the ability to extract commercial quantities of petroleum and natural gas;
- Transportation risk with respect to the ability to transport petroleum and natural gas to market;
- Third party credit risk and the resulting ability to collect amounts owed;
- Capital markets risk and the ability to finance future growth;
- Uncertainty as to the nature of evolving environmental legislation that is likely to result in stricter standards and enforcement ; and
- Environmental risk with respect to the ability to remedy spills, releases or emissions of various substances produced in association with petroleum and natural gas operations.

The Company will seek to minimize these business risks by:

- Employing management, technical staff and consultants with extensive industry experience;
- Maintaining a low cost structure;
- Maintaining prudent financial practices;
- Controlling timing and magnitude of operating and capital costs;
- Working with established industry partners; and
- Maintaining insurance in accordance with industry standards to address the risk of liability for pollution, blow-outs, property damage, personal injury and other hazards.

OTHER

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