ZENITH ENERGY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE MONTHS AND YEAR ENDED MARCH 31, 2019

This management's discussion and analysis (the "**MD&A**") dated June 28, 2019 of Zenith Energy Ltd. ("**Zenith**" or the "**Company**") is presented in Canadian dollars and should be read in conjunction with the Company's audited consolidated financial statements dated March 31, 2019.

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, 2018.

The functional currency of the Company is the Canadian dollar ("**CAD$**"); the functional currency of the Company's Italian subsidiary is the Euro; the functional currency of the Company's Azerbaijan subsidiaries is the United States Dollars and the functional currency of the Company's Swiss subsidiary is the Swiss Franc. The Company's presentation currency is the CAD$. In this MD&A, unless otherwise noted, all dollar amounts are expressed in CAD. References to "**USD**" are to United States dollars, references to "**EUR**" are to Euros and references to "**GBP**" are to Britain Pounds and references to "**CHF**" are to Swiss Francs.

The amounts are shown in thousands Canadian Dollars (CADS'000), British Pounds (£'000) and US Dollars (US$'000), where not disclosed 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 the 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"). The 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 "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 contained in this MD&A is forward-looking relating but not limited 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 concessions; (xi) the ability of the Company to re-commence production on both the Torrente Vulgano and Canaldente concessions; (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 2019; (xv) expectations related to the assets producing oil in Azerbaijan named Muradkhanli, Jafarli and Zardab, operated by Zenith Aran Oil Company Limited 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 assets located within Azerbaijan and will focus on managing the assets 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. 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(s) contained in this document.

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.

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.

The Development and Production assets in Italy and Azerbaijan are valued using discount factors of 15% and 10% respectively.

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

As at March 31, 2019, the Group identified certain business risks related to its Italian and Azerbaijan CGUs, such as a decrease in forecast prices from those in prior years and the deferral of future capital investment, as indicators of impairment. As a result, the Group performed impairment tests at March 31, 2019 and estimated the recoverable amount of the above CGUs based on the higher of the fair value less costs to sell and its value in use.

The estimated fair value less costs to sell of the Italian CGU was based on 15% (2018 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at March 31, 2019 and 2018. The estimated recoverable amount of the Italian CGU at March 31, 2019 was higher than its carrying amount, therefore, no impairment was recognized in the year ended March 31, 2019 (2018 – CAD $nil) in the consolidated statement of comprehensive income.

The estimated fair value less costs to sell of the Azerbaijan CGU was based on 10% (2018 – 10%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at March 31, 2019. The estimated recoverable amount of the Azerbaijan CGU at March 31, 2019 was higher than its carrying amount, therefore, no impairment was recognised in the year ended March 31, 2019 (2018 - CAD $nil) in the consolidated statement of comprehensive income. The headroom between the calculated value in use and the carrying amount is sensitive to changes in the discount rate used. A 0.8% increase in the discount rate would eliminate the headroom and therefore any increase in the discount rate above 0.8% would result in an impairment.

A decrease of more than 6.2% in the estimated fair value of the reserves in the Azerbaijan CGU would lead to the recognition on an impairment, whereas in the Italian CGU the decrease should be more than 36% for an impairment to be recognized. In addition, movements in other inputs to the calculation, such as the timing of future cashflows and commodity prices, also have a significant impact on the value of the underlying assets.

NATURE OF OPERATIONS, ACQUISITON AND EXPLORATION ACTIVITIES

Zenith is a public company listed on the TSX Venture Exchange under the ticker symbol, "**ZEE**", on the Main Market of the London Stock Exchange under the ticker "**ZEN**". In addition, the Company's common share capital was admitted to trading on the Merkur Market of the Oslo Børs under the tucker "**ZENA**:**ME**" on November 8, 2018. The Merkur Market is a multilateral trading facility owned and operated by the Oslo Børs.

The Company was incorporated under the Business Corporations Act (British Columbia) ("**BCBCA**") on September 20, 2007. The Company's registered address is 250 Howe Street, 20th Floor, Vancouver, BC, V6CV 3R8, Canada and its website address is: **www.zenithenergy.ca**. The Company's primary operational activities are the production and development of hydrocarbon reserves in Azerbaijan and Italy.

On March 10, 2010, Zenith established 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 operate producing assets in Argentina. However, as described in subsequent paragraphs, after Petrolera Patagonia S.r.l. was acquired, management saw no immediate need for IPRP. 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 assets in Argentina.

On March 23, 2011, Zenith established Canoel Italia S.r.l. ("**Canoel")** an Italian subsidiary of the Company, in order to enable the Company to have an Italian operating entity and thereby have the possibility to be awarded oil and gas production and exploration assets posted for auction by the Italian Ministry for Economic Development.

On August 27, 2011, Canoel was awarded two natural gas production assets, which were previously on production but are currently shut-in, in an auction by the Ministry of Economic Development. Zenith's bid was accepted on the basis of a comprehensive and detailed presentation outlining a clear programme to return both assets to production. The assets 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 Italian 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 production and exploration permits from an established natural gas production company, Mediterranean Oil & Gas Plc, a British company with activities in Italy, France and Malta, listed on the AIM of the London Stock Exchange.

On June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian production and exploration assets (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 final approval from the Italian Ministry for Economic Development for 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 Permit Applications are located in southern Italy and cover an area of 1,285 sq. kilometres.

On October 1, 2015, the Company acquired cogeneration equipment and infrastructure from the owner of the plant that treats gas from the Masseria Vincelli 1 well in the Torrente Cigno concession in Italy. The acquisition has enabled the Company to produce electricity using Torrente Cigno' sub-standard natural gas production from the Masseria Vincelli 1 well and sell it directly into the national 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 authorised the State Oil Company of the Azerbaijan Republic ("**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 Muradkhanli, Jafarli and Zardab, known as the Muradkhanli Area (the "**Area**"), covering 642.4 sq. 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 was enacted into Azerbaijan national law.

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 bopd under Zenith's ownership. The REDPSA therefore became effective on August 11, 2016.

On February 20, 2017, Zenith announced the divestment of its operations in Argentina to a group of local energy investors. The divestment of the Company's oil production activities in Argentina has enabled Zenith's management to direct undistracted focus towards Zenith's operations in Azerbaijan, where a systematic programme of field rehabilitation is underway, as well as enabling the consolidation of its Italian energy production portfolio. The divestment reflects the Board's aversion to operational overstretch, and the Company's preference for a strong, undistracted focus towards the achievement of its operational goals in Azerbaijan.

On March 30, 2017, Zenith acquired a Swiss company, Altasol SA, a non-operating company, purchased with the intention of developing an oil trading subsidiary of Zenith.

On November 2, 2017, Zenith was a founding party in a newly incorporated Italian entity named 'Leonardo Energy Consulting S.r.l.' ("**Leonardo**"). The Company holds a 48 percent interest in Leonardo. The primary purpose of this subsidiary is the identification of business development opportunities in Central Asia and in the Middle East.

On March 28, 2018, the Company announced that it had entered into a binding exclusivity and an option to purchase agreement (the "**Agreement**") for the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**").

The Proposed Acquisition envisaged the Company acquiring a 100% working interest in an oil production licence comprising two onshore blocks, with a combined total acreage covering approximately 65 sq. kilometres.

Existing production was reported as in excess of 1,000 barrels of oil per day transported by pipeline directly into the national oil sales system with a reported all-in average production cost of US$18 per barrel.

The oilfields were located in a prolific oil and gas basin with a proven petroleum system. At the time of the Proposed Acquisition it was reported that only one of the two oilfields was producing. The second oilfield was reported to be capable of significant production by drilling new wells and performing workovers on existing wells. In addition, it was also reported that drilling activities could be performed at relatively low-cost and without significant delay. The average total depth of production wells in the licence are of the Proposed Acquisition was reported to be between 350 to 750 metres.

The approved development programme for the licence area of the Proposed Acquisition, involving the drilling of new wells and the introduction of new oil production technology, was reported to be able to achieve a doubling of production from the Proposed Acquisition by 2020.

The Chief Executive Officer and President of the Company made a down payment of US$100,000 by April 15, 2018, (the "**Deposit**"). After completing the Due Diligence, the Company would have a period of 15 days to choose to exercise the binding option to complete the Proposed Acquisition (the "**Option**") for a total consideration of US$6,600,000 (the "**Consideration**"). The Consideration was to be payable as to 50 per cent., (US$3,300,000), within 7 business days of exercising the Option (the "**First Payment**"), and the balance, (US$3,300,000), payable by the deadline of August 31, 2018.

On May 16, 2018, the Company announced that its due diligence of the Proposed Acquisition in Indonesia, encompassing an evaluation of the legal, accounting, petroleum and fiscal aspects of the Proposed Acquisition, was in progress and that the Company now expected to complete the Due Diligence by June 15, 2018. The extension enabled the Company to further examine certain areas of the Proposed Acquisition that required clarity to satisfy the Company's stringent Due Diligence requirements.

On 16 July 2018, the Company announced that the due diligence report of the Proposed Acquisition's financial statements of the entity in Indonesia evidenced a number of discrepancies. Management visited Indonesia during July 2018 to undertake further pricing negotiations with the ultimate vendor of the Proposed Acquisition based on the findings of the due diligence report. However, the ultimate vendor refused to accept the Company's offer which had been formulated on the basis of the findings of the aforementioned due diligence report.

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

In addition, the vendor and Zenith expressed different views regarding the return of the deposit advanced by Mr. Andrea Cattaneo, Chief Executive Officer & President of the Company, in good faith and support of the Proposed Acquisition. Zenith and Mr. Andrea Cattaneo consider the retention of the deposit by the vendor to be contrary to the mutually agreed terms and the parties' intentions. The Company and Mr. Andrea Cattaneo are evaluating which steps can be taken in order to recover the deposit.

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

Company. This process took time as the UAE is not part of the Treaty of the Hague and any step requires legalized translation in Arabic language.

DEVELOPMENT AND EXPLORATION ACTIVITIES

The Company conducted the following development activities in Azerbaijan, Italy and in new subsidiary Zena Drilling as noted below:

	Year ended March 31, (CAD$'000)	(CAD$'000)
Capital additions	**2019**	**2018**
Azerbaijan	**37**	**3,737**
Italy	**58**	**87**
United Arab Emirates	**296**	**2,157**
	391	**5,971**

HIGHLIGHTS FOR THE YEAR ENDED MARCH 31, 2019, INCLUDE THE FOLLOWING:

OPERATIONAL:

- During the three months and the financial year ended March 31, 2019, the Company produced 20,835 and 85.524 bbls of oil from its assets in Azerbaijan, as compared to 27,146 and 97,471 bbls of oil produced in the 2018 similar period.
- During the three months and the financial year ended March 31, 2019, the Company sold 17,320 and 75.913 bbls of oil from its assets in Azerbaijan, as compared to 20,079 and 81,745 bbls of oil sold in the 2018 similar period.
- During the three months and the financial year ended March 31, 2019, the Company sold 3,275 and 10,868 mcf of natural gas from its Italian assets, as compared to 3,710 and 16,909 mcf of natural gas in the 2018 similar period.
- During the three months and the financial year ended March 31, 2019, the Company sold nil and 628 bbls of condensate from its Italian assets, as compared to 105 and 715 bbls of condensate in the 2018 similar period.
- During the three months and the financial year ended March 31, 2019, the Company sold 2,752 and 9,433 MWh of electricity from its Italian electricity production assets, as compared to 760 and 7,975MWh for the corresponding period of 2018.
- On June 25, 2018, the Company's oilfield service subsidiary, Zena Drilling Limited, ("**Zena**"), signed a revised commitment letter (the "**Revised Commitment Letter**") for the operating lease of a Genesis BQ500 onshore drilling rig ("**BQ500**") with Olieum Services WLL ("**Olieum**"), an integrated oilfield services and equipment joint venture based in Bahrain. The Revised Commitment Letter superseded the letter signed on November 1, 2017, and it includes more favourable terms for the Company in a number of areas.

  The BQ500 is a 2,000hp automated hydraulic drilling rig to be built by Robotics.
- On July 16, 2018, the Company announced that the due diligence report of the Proposed Acquisition's financial statements of the entity in Indonesia uncovered certain discrepancies. Management visited Indonesia during July 2018 to undertake further pricing negotiations with the ultimate vendor of the Proposed Acquisition based on the findings of the due diligence report. However, the ultimate vendor refused to renegotiate the total consideration in reflection of the aforementioned discrepancies identified in the due diligence report.

  Zenith's Board of Directors therefore decided not to proceed with the completion of the Proposed Acquisition due to the vendor's refusal to renegotiate the total consideration. As aforementioned, the accounting due diligence process evidenced negative discrepancies largely exceeding 35% of the book values declared in the Proposed Acquisition's financial statements dated February 28, 2018.

  In addition, the vendor and Zenith maintained different positions regarding the return of the deposit advanced by Mr. Andrea Cattaneo, Chief Executive Officer & President of the Company, in good faith and support of the Proposed Acquisition. Zenith and Mr. Andrea Cattaneo consider the retention of the deposit by the vendor to be contrary to the mutually agreed terms and the parties' intentions.
- As announced on August 13, 2018, the Company has completed two comprehensive geological studies which have

offered a clear overview of the potential drilling opportunities located within the Company's Azerbaijan asset. Specifically, the study performed in relation to the Muradkhanli and Jafarli fields identified a new, previously unexplored, Mesozoic carbonate prospect running across the two fields beginning from the south-western flank of the Muradkhanli oilfield. In addition, the study also provided a modern re-evaluation of the Eocene age reservoir levels comprised of sandstones, mainly limestones and volcanic facies.

- On September 5, 2018, the fully owned subsidiary Zena Drilling Limited signed a purchase agreement for a BD-260 drilling rig assembled by B Robotics W S.r.l., for a total consideration of €2,250,200. The agreement supersedes the six-month rental agreement Zena had signed with Robotics for the BD-260 drilling rig dated June 6, 2018. In addition, Robotics confirmed it would provide its highly experienced drilling personnel for a minimum of six months as part of the aforementioned agreement. In addition, the Company announced that it was formalising a tender process in Azerbaijan for the leasing of a 180-ton truck-mounted workover and drilling rig for a period of four months.
- On October 10, 2018, ARC Ratings, SA. assigned the Company a medium to long-term issuer credit rating of "B+" with Positive Outlook.
- On October 15, 2018, the Company announced that it was preparing to commence drilling operations, having finalised a programme to deepen well C-37 in the Jafarli field. This has been based on a series of in-depth geological investigations, including analysis of 2D and 3D seismic lines, which have evidenced a highly prospective, unexploited structure comprised of Upper Cretaceous carbonates formations.
- On November 2, 2018, the Company begun a comprehensive reservoir engineering study to achieve the optimisation of production from active and shut-in production wells across the Muradkhanli, Jafarli and Zardab oilfields in Azerbaijan.

  The findings of the reservoir study will complement the two comprehensive geological studies previously completed by the Company, announced on August 13, 2018, whose scope was focused on the selection of infill drilling locations across its field area in preparation for the beginning of drilling activities in Azerbaijan.

- On January 23, 2019, the Company announced that its oilfield service company subsidiary, Zena Drilling Limited, had purchased drilling equipment from B Robotics W S.r.l., ("**Robotics**") for a total amount of approximately EURO 722k.

FINANCIAL:

- The Company generated revenues from oil and natural gas of CAD$6,208k (2018 – CAD$5,985k) and from electricity CAD$ 691k (2018 – CAD$599k) in the year nded March 31, 2019, representing an increase of 31% in revenues over the corresponding period in 2018.

- On April 18, 2018, the Company announced the extension of the maturity date of the Series A Bond (the "**Bond Extension**"). The Bond Extension extends the maturity date for the Series A Bond from May 4, 2018, by six months to November 4, 2018. For the duration of the Bond Extension the interest rate of the Series A Bond has been increased to fifteen per cent per annum (15% p.a.). No further material terms will be amended in the Series A Bond or in any other document related to the 2015 Private Placement.
- Furthermore, in connection with the work undertaken on the Bond Extension, Optiva Securities Limited, at that time the Company's joint broker, will be paid a fee consisting of (i) £10,125 in cash (CAD$18,141 at an exchange rate of 1.79167); and (ii) 93,750 common share purchase warrants ("**Warrants**"). The Warrants entitle the holder to acquire one common share per warrant in the capital of Zenith at an exercise price of £0.12 (approximately CAD$0.215) until the expiration date in May 2021.
- On May 2, 2018, the Company fully repaid the loan to acquire the Italian co-generation plant from a third party of which €401k (CAD$637k) of the purchase price was in the form of a loan from the seller.
- On May 4, 2018, Mr. A. Cattaneo swapped part of his salary for the 2018 financial year for common shares in Zenith Energy Ltd. As a result, the Company issued Mr Andrea Cattaneo 1,123,068 common shares in the capital of the Company at an average price of CAD$0.165 (approximately £0.094) for the period from April 1, 2017, until March 31, 2018. The amount of the Salary Sacrifice Shares was calculated based on Mr Cattaneo's salary as at April 1, 2017.

- On May 24, 2018, the Company signed a two-year non-convertible loan facility, (the "**Facility**"), for a total amount of up to US$2,000,000.

  The Facility will be used to provide additional funding for the Company's operations when required. It will be drawn down in tranches, with each tranche being payable four months from the drawdown date. It can be settled at any time without penalty and has no warrants attached.

- On June 21, 2018, the Company raised gross proceeds amounting to £2,166,898 through the successful Placing, Subscription and Primary Bid Offer.

  As a result of the Placing, Subscription and Primary Bid Offer the Company issued a total of 54,172,451 new common shares, (the "**New Common Shares**").

  The Company also paid finder's fees for CAD$187k and issued 1,280,000 warrants, that could be exercised at a price of CAD$0.07 per warrant that expire three years after the granting date.

- On August 30, 2018, Zenith Aran entered into a general line of credit agreement with Rabitabank up to EUR 70k (CAD$106k). This Credit Agreement bears interest at a rate of 10% per annum. The loan was granted for a three month-period and the principal amount of the loan will be paid at the end of the period. The loan is guaranteed by the Company. The interest is payable on a monthly basis and the principal amount will be paid by November 30, 2018. In December 2018 the bank made a prolongation of the principal amount payment for one month, which was repaid in January 2019.

- On September 5, 2018, the Company announced that it had entered into a US$1,500,000 unsecured convertible loan facility (the "**Facility**") with a term of 18 months starting from August 30, 2018. Zenith shall pay interest on the outstanding amount of the Facility at the rate of 0% per annum. The Facility includes an initial immediate advance of US$1,300,000 and a further advance of US$200,000, to be provided at a later time and only at the discretion of the Lenders. Under the terms of the Facility the Company issued the lenders 6,977,988 share purchase warrants (the "**Warrants**") to subscribe for the equivalent number of common shares of no par value in the share capital of the Company at a price of £0.0505 per Common Share on subscription at any time from December 30, 2018, to February 28, 2020, subject to the articles of the Company and the terms and conditions of the Facility.

- On November 7, 2018, the Company announced that it had received approval for admission to trading of its entire common share capital on the Merkur Market of the Oslo Børs (the "**Merkur Market**"). The Merkur Market is a multilateral trading facility owned and operated by the Oslo Børs. In addition, in order to satisfy the Merkur Market admission requirements the Company completed a private placement with Norwegian investors (the "**Private Placement**"). The Private Placement successfully raised gross proceeds of NOK 7,274k (approximately £668k or CAD$1,142k) through the placement of 20,782,429 common shares of no-par value (the "Placement Shares") at a subscription price of NOK 0.35 per share (approximately £0.032 or CAD$0.055 per Placement Share). No Insider/Person Discharging Managerial Responsibility subscribed for Placement Shares. Following issuance of the Placement Shares, the Company will have a total of 237,102, 587 Common Shares in issue. 237,102,587 Common Shares will be admitted to trading on the Merkur Market and listed on the TSX Venture Exchange in Canada. The Company announced that an application for the Placement Shares to be listed on the standard segment of the UK Official List and to be admitted to trading to the Main Market of the London Stock Exchange will be made within 12 months of the issue of the Placement Shares, and that the number of Common Shares listed on the standard segment of the UK Official List and to be admitted to trading to the Main Market of the London Stock Exchange remained unchanged at 216,320,158.

- On November 12, 2018, the Company announced that it had successfully completed a private placement on the Merkur Market of the Oslo Børs with Norwegian investors raising gross proceeds of NOK 1 million (approximately £92k or CAD$15k) through the placement of 2,857,143 common shares of no par value (the "**Placement Shares**") at a subscription price of NOK 0.35 per Placement Share (approximately £0.032 or CAD$0.055).

  Following this placement the Company had a total of 239,959,730 common shares in issue and admitted to trading on the TSX Venture Exchange and Oslo Bors. The total number of common shares listed on the standard segment of the UK Official List and admitted to trading on the Main Market of the London Stock Exchange is 216,320,158.

- On January 7, 2019, the Company announced:
  - The successful renegotiation of the terms of the unsecured Convertible Loan Facility (the "**Facility**") announced on September 5, 2018 for an aggregate amount of US$1,500k.
  - Zenith announced that it had agreed with the consortium of lenders that conversion of the Facility would not take place before March 1, 2019, and that the total outstanding liability in relation to the Facility would stand at US$1,050k (approximately £825k; CAD$1.4 million; NOK 9 million) by January 14, 2019.
  - The non-convertible loan agreement for the total amount of £230k, signed on April 3, 2018, was repaid in full on December 19, 2018.
  - The Company entered into a new unsecured convertible loan facility for an aggregate total amount of up to £1 million (the "**Loan Facility**") with a consortium of lenders (the "**Lenders**"). The Loan Facility has a term of 24 months and the Company shall pay interest on the outstanding amount of the Loan Facility at the rate of 8% per annum (the "**Interest Rate**"). The Loan Facility is repayable on January 15, 2021.
  - With certain limitations, the Convertible Loan Notes ("**CLNs**") will be convertible into Common Shares of the Company at any time after the expiry of a 120 day lock up period from the date of issue of the CLNs, January 15, 2019, as required under applicable Canadian securities laws.

- On January 11, 2019, the Company announced that it had issued and listed EURO 3,120k unsecured corporate EMTN EUROPEAN MEDIUM TERM NOTES at par value (the "**Notes**") on the Third Market (MTF) of the Vienna Stock Exchange.

  The Notes bear interest at a rate of 8 per cent per annum, payable semi-annually, and are listed on the Third Market (MTF) of the Vienna Stock Exchange ("**Wiener Borse AG**") as "ZENITH ENERGY LTD 8% NOTES - 2021" The International Securities Identification Number ("**ISIN**") of the Notes is AT0000A23S79. This issuance is part of an approval to list up to EURO 10 million in several tranches and with the same ISIN.

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

  The Company is planning further issuances of the Notes during the first the course of 2019. Respective announcements in relation to each issuance will be made as required.

- On February 8, 2019 the Company announced the completion of 2 offerings, one in Canada, (the "**Canadian Financing**"), and the other in the United Kingdom, (the "**UK Financing**"), with a consortium of private and institutional investors to raise a total of £607k (approximately CAD$1,036k).

  The Company intends to use the aggregate proceeds of the Canadian Financing and the UK Financing to increase its continued investment in its Azerbaijan field operations and for general working capital.

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

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

- On March 11, 2019 the Company announced that it had successfully renegotiated the US$1,500,000 convertible loan facility (the "**Facility**") announced on September 5, 2018.
  The Company agreed with the consortium of lenders (the "**Lenders**") that the terms of the Facility shall be amended to include the possibility of optional redemptions (the "**Optional Redemption**") to be made by the Company in lieu of conversion of the Facility by the Lenders for set redemption amounts (the "**Redemption Amounts**") amortised across the duration of the Facility.
  In addition, provided prior notification is given by the Company to the Lenders regarding its intention to either pay the Optional Redemption or confirm that the applicable Redemption Amounts may be converted,

conversion of the Redemption Amounts may only be effected by the Lenders at a fixed conversion price of £0.0505 (approximately CAD$0.088; NOK 0.57) (the "**Fixed Conversion Price**").
Furthermore, the Company and the Lenders agreed to extend the repayment date of the Facility to May 31, 2020.

- On March 25, 2019 the Company announced that it issued unsecured notes (the "**Notes**") for a total amount of £90k (approximately CAD$158k) with 900,000 share purchase warrants attached (the "**Warrants**"). Each Warrant will entitle the holder to acquire one common share of no-par value ("Common Share") in the capital of Zenith, at a strike price of CAD$0.10 (approximately £0.056) per Common Share, for a period of 12 months following the closing date.
  Unless permitted under applicable Canadian securities legislation, holders must not trade the Notes, or the Warrants underlying the Notes, in Canada before the date that is four months and a day after the issue date of February 15, 2019. The formalisation of the process was subject to approval by the TSX Venture Exchange.
  The maturity date of the Notes is July 31, 2019, and they carry an interest of 15 percent per annum, payable upon the maturity of July 31, 2019, computed on the basis of a 360-day year composed of twelve 30-day months.

CORPORATE AND ADMINISTRATIVE:

- The Company continues to improve its accounting and administrative practices.
- In accordance with the Company's Stock Option Plan on April 5, 2018, the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "**Options**"). A total of 9,500,000 Options have been granted to directors and persons discharging managerial responsibility ("**PDMRs**"). Further details of the Options awarded to directors and PDMRs are outlined below. The exercise price of the Options is equivalent to the Company's TSXV closing price of March 26, 2018, being CAD$0.12 (approximately £0.067). The Options are fully vested and expire five years from the date of granting.
- On October 2, 2018, the Company's Chief Executive Officer & President, Mr. Andrea Cattaneo advised the Company that he had swapped his salary for the first two quarters of the 2019 financial year in exchange for common shares in the capital of Zenith ("**Salary Sacrifice Shares**"). As a result, on October 1, 2018, the Company issued Mr. Cattaneo 2,225,941 Salary Sacrifice Shares at an average price of CAD$0.108 for the period from April 1, 2018, to June 30, 2018, and at an average price of CAD$0.069 for the period from July 1, 2018, to September 30, 2018. The amount of Salary Sacrifice Shares was calculated on the basis of Mr. Cattaneo's salary as at October 1, 2018.

SUBSEQUENT EVENT HIGHLIGHTS:

a) On April 2, 2019 the Company announced that it had completed two offerings with a consortium of private and institutional investors and raised an aggregate total amount of approximately £1,020k (approximately CAD$1,790k).
The Company used the proceeds of the Financings to provide additional funding for its existing well deepening programme in Azerbaijan and for general working capital.

Canadian Financing
Zenith issued a total of 20,000,000 common shares of no par value in the capital of the Company ("**Common Shares**") at a price of CAD$0.05 in connection with the Canadian Financing to raise gross proceeds of CAD$1,000k (approximately £570k).

UK Financing
Zenith issued a total of 17,647,059 Common Shares of no par value in the capital of the Company at a price of £0.0255 (approximately CAD$0.045) in connection with the UK Financing and raised gross proceeds of £450k (approximately CAD$790k).

b) On May 3, 2019 the Company announced that it had completed a placing of new common shares of no par value in the capital of the Company ("**Common Shares**") in the United Kingdom (the "**Financing**").
Zenith issued a total of 14,334,602 Common Shares at a price of £0.028 (approximately CAD$0.049) in connection with the Financing to raise gross proceeds of £401k (approximately CAD$703k).

The Company used the proceeds of the Financing to purchase a Top Drive system and additional equipment for the mud system of the BD-260 drilling rig to ensure increased performance during well C-37 drilling operations. The Top Drive system and additional mud system components was delivered in June 2019.

Total Voting Rights
In accordance with the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, the following information following Admission of the Financing Common Shares:

Class of share	Total number of shares	Number of voting rights per share	Total number of voting rights per class of share
Common shares in issue and admitted to trading on the Main Market of the London Stock Exchange	258,404,153	1	258,404,153
Common shares in issue and admitted to trading on the TSXV	312,408,725	1	312,408,725
Common shares in issue and admitted to trading on the Merkur Market of the Oslo Børs	312,408,725	1	312,408,725

OPERATIONAL UPDATE

ITALY

In August 2009, the Italian Ministry for Economic Development announced an auction for three previously producing natural gas production assets owned and operated by Eni, the Italian oil and gas major. Zenith's Italian subsidiary, Canoel Italia S.r.l ("**Canoel**"), participated in the auction process for two assets, was selected as a finalist in the auction process, and was subsequently awarded the two assets.

On August 30, 2011, the Company announced that the Italian "Ministero per lo Sviluppo Economico" (the Ministry for Economic Development) confirmed in writing that Zenith's technical submission and proposal to return these assets to production had been approved.

These two natural gas production assets are both located in southern Italy. The first asset, named "Torrente Vulgano", is located in the Puglia Region, whilst the second, named "Canaldente", is located in the Basilicata Region. Both assets are already connected to the Italian national gas distribution network and therefore do not require the installation of new infrastructure.

The Torrente Vulgano and Canaldente concessions were previously operated by Italian oil major ENI. In the four-year period prior to the assets being returned to the Ministry for Economic Development by ENI, (1997-2000), the Torrente Vulgano concession 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 m^3 = 35.31 MCF).

Canoel will have to comply with certain Italian regulatory obligations before field start-up. Production will commence once all the necessary approvals have been received. However, there can be no assurance that production of the Torrente Vulgano and Canaldente assets will be resume at past rates. It is worth noting that the Canaldente reservoir appears to be a good candidate for gas storage when the well will eventually be shut-in at the end of commercial production cycle.

On August 27, 2011, Canoel was approved in its role as operator by the relevant Italian 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 assets 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 Government for the change of ownership.

On October 1, 2015, the Company acquired cogeneration equipment and facilities which has enabled the company to produce electricity from the natural gas produced from the Masseria Vincelli 1 well, and to sell its electricity production directly into the national energy grid.

The Company's share of estimated total proved plus probable natural gas net reserves were assessed at 16,280 Mmscf and condensate net reserves were assessed at 255 Mbbls as of March 31, 2019.

AZERBAIJAN

On June 8, 2015, the Company and SOCAR (State Oil Company of the Azerbaijan Republic) signed a confidential memorandum of understanding ("**MOU**") for the Muradkhanli Area. Formal approval of the MOU was subsequently granted by the President of Azerbaijan through Decree No. 1439, dated October 7, 2015 ("**Presidential Decree**"). This authorised SOCAR to prepare and execute a Rehabilitation, Exploration, Development and Production Sharing Agreement ("**REDPSA**") for the Muradkhanli 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 a 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, and the Company's rights and obligations under the REDPSA became enacted into Azerbaijan national law.

The REDPSA covers approximately 642.4 square kilometres and includes the active Muradkhanli, Jafarli and Zardab oilfields located in the Lower Kura Region, about 240 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 a SOA form the contractor group.

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

On June 14, 2016, the REDPSA for the Area Including the Muradkhanli, Jafarli and Zardab oilfield in the Republic of Azerbaijan was ratified by the Parliament of Azerbaijan.

In June 2016, the Company established Aran Oil Operating Company Limited, 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, following parliamentary ratification on June 14, 2016.

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 at approximately 300 bopd.

The Company's share of estimated total proved plus probable natural oil net reserves was assessed at 32,103 MSTB as of March 31, 2017.

On August 21, 2017, the Company announced that it had signed a contract for the procurement of oil production materials with Kerui Petroleum, a leading Chinese manufacturer of oilfield equipment.

The total value of the procurement contract between Kerui Petroleum and Zenith is US$1,706k (approximately £1,325k; CAD$ 2,146k). The terms of payment have been defined in accordance with INCOTERMS 2010 and will take place within 1 year of the contract's effective date. Zenith will pay 15 percent of the total contract value in advance as deposit.

The procurement of this new equipment will enhance Zenith's operational capabilities, enable the Company's personnel to work in remote field locations, and replenish Zenith's stock of oil production materials.

The materials procured include: a blowout preventer (BOP); a full set of well control equipment; drill pipes to be used as a work string; tubing to be used in the installation of new electric submersible pumps and in old wells that have been returned to production; new oilfield infrastructure; lighting equipment; and a generator system to enable a workover rig to operate without the need for nearby infrastructure across Zenith's 642.4 sq. kilometres field area.

The procurement of these materials evidences Zenith's preference towards using its own equipment and resources across its operational activities. This ensures lower costs, direct accountability, and comprehensive oversight of the Company's operations. The Company's stock of oilfield equipment will also avoid the risk of Zenith's operations being affected by third-party delays in supplying equipment that the Company's systematic field rehabilitation activities require on an immediate basis.

The Company’s share of estimated total proved plus probable oil net reserves were assessed at 30,564 MSTB as of March 31, 2019.

OTHER ACTIVITIES

In addition to the activities discussed above, the Company is examining a number of opportunities for value-accretive expansion with the potential acquisition of additional oil and gas producing assets in established oil production regions.

- On March 30, 2017, the Company acquired a Swiss company, Altasol SA. Altasol SA does not hold any assets and was purchased with the intention of developing an oil trading subsidiary of Zenith Energy Ltd.

- On November 2, 2017, Zenith was a founding party in a newly incorporated Italian company named 'Leonardo Energy Consulting S.r.l.'. The Company holds a 48 percent interest in the entity. The primary purpose of the company is the identification of business development opportunities in Central Asia and the Middle East.

- On March 28, 2018, the Company announced that it had entered into a binding exclusivity and an option to purchase agreement (the "**Agreement**") for the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**"). The due diligence of the Proposed Acquisition's financial statements of the entity in Indonesia uncovered certain discrepancies. Management visited Indonesia during July 2018 to undertake further pricing negotiations with the ultimate vendor of the Proposed Acquisition, based on the findings of the due diligence report. However, the ultimate vendor decided not to accept the Company's proposal. Zenith's Board of Directors therefore agreed not to proceed with the completion of the Proposed Acquisition due to the vendor's refusal to renegotiate the total consideration.

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

FINANCIAL PERFORMANCE

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

	Three months ended March 31, 2019	Three months ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2018
Oil and gas revenue, net of royalties ($'000)	**1,359**	1,720	**6,564**	5,505
Oil and gas revenue, net of royalties – per boe ($)	**63.56**	63.36	**74.62**	56.48
Total daily oil and gas sales volumes per boe	**232**	310	**238**	278
Electricity revenue($'000)	**213**	170	**692**	599
Electricity gas sales volumes per mcf ($)	**5.10**	11.46	**4.77**	8.59
Net income (loss) ($'000)	**(3,884)**	(10,487)	**(9,761)**	(9,918)
Net income (loss) per share – basic ($)	**(0.04)**	(0.07)	**(0.04)**	(0.07)
Net income (loss) per share – diluted ($)	**(0.04)**	(0.07)	**(0.04)**	(0.07)
Capital expenditures ($'000)	**30**	2,553	**391**	5,971
Weighted average number of shares – basic ('000)	**227,509**	134,829	**227,509**	134,829
Weighted average number of shares – diluted ('000)	**258,405**	165,594	**258,405**	165,594

Oil revenues are gross of selling and transportation costs and share profit for the partner in Azerbaijan; in the Financial Statements the oil revenues are net of these amounts.

To calculate all the performances in this MD&A, the Company used the gross revenues, based on its oil production.

PRODUCTION

	Three months ended March 31, 2019	Three months ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2018
Total volumes				
Oil (bbls) (1)	**20,835**	27,146	**85,524**	97,471
Condensate (bbls) (2)	**-**	105	**628**	715
Gas (mcf) (2)	**3,275**	3,710	**10,868**	16,909
Total oil and gas sales volumes (boe)	**21,381**	27,869	**87,963**	101,274
Electricity (gas) sales volumes (mcf)	**41,759**	11,906	**145,188**	111,042
Total sales volumes (boe)	**28,341**	29,853	**112,161**	119,781
Daily volumes				
Oil (bbls/day) (1)	**232**	302	**234**	268
Condensate (bbls/day)	**-**	1	**2**	2
Gas (mcf/day)	**37**	41	**30**	46
Total daily oil and gas sales volumes (boe/day)	**238**	310	**241**	278
Daily gas sales volumes for electricity (mcf)	**464**	132	**398**	304
Total daily sales volumes (boe/day)	**315**	332	**307**	329

- During the three months and the financial year ended March 31, 2019, the Company produced 20,835 and 85.524 bbls of oil from its assets in Azerbaijan, as compared to 27,146 and 97,471 bbls of oil produced during the corresponding period for 2018.
- During the three months and the financial year ended March 31, 2019, the Company sold 17,320 and 75.913 bbls of oil from its assets in Azerbaijan, as compared to 20,079 and 81,745 bbls of oil sold during the corresponding period for 2018.
- During the three months and the financial year ended March 31, 2019, the Company sold 3,275 and 10,868 mcf of natural gas from its Italian assets, as compared to 3,710 and 16,909 mcf of natural gas in the 2018 similar period.
- During the three months and the financial year ended March 31, 2019, the Company sold nil and 628 bbls of condensate from its Italian assets, as compared to 105 and 715 bbls of condensate in the 2018 similar period.
- During the three months and the financial year ended March 31, 2019, the Company sold 2,752 and 9,433 MWh of electricity from its Italian electricity production assets, as compared to 760 and 7,975MWh for the corresponding period of 2018

Azerbaijan Crude Oil Production

On March 16, 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a REDPSA with SOCAR and a SOA. The REDPSA covers 642.4 sq. kilometres including the active Muradkhanli, Jafarli and Zardab oilfields located in the Lower Kura Region, about 240 kilometres inland from the city of Baku (the "**Azerbaijan 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, when Zenith began production activities. The transfer of operational control did not result in any interruption of oil production operations.

Following the successful handover on August 11, 2016, Zenith began oil production activities in Azerbaijan. During the period from August 11, 2016, to December 31, 2016, the Company produced approximately 300 bopd. Natural gas is also produced in low quantities and is used onsite. The Company, which is free to sell/export oil without restrictions, sells its oil through the Marketing and Operations Department of SOCAR ("**SOCARMO**"). A commission of 1% on total sales is payable to SOCARMO.

During the three months and the financial year ended March 31, 2019, the Company produced 20,835 and 85.524 bbls of oil from its assets in Azerbaijan, as compared to 27,146 and 97,471 bbls of oil produced during the corresponding period for 2018.

During the three months and the financial year ended March 31, 2019, the Company sold 17,320 and 75.913 bbls of oil from its assets in Azerbaijan, as compared to 20,079 and 81,745 bbls of oil sold during the corresponding period for 2018.

Italy Natural Gas Production

During the three months and the financial year ended March 31, 2019, the Company sold 3,275 and 10,868 mcf of natural gas from its Italian assets, as compared to 3,710 and 16,909 mcf of natural gas in the 2018 similar period.

Daily average gas sale volumes for electricity produced from the Torrente Cigno concession for the year ended March 31, 2019, was 398 MCF/d.

Italy Condensate Production

During the three months and the financial year ended March 31, 2019, the Company sold nil and 628 bbls of condensate from its Italian assets, as compared to 105 and 715 bbls of condensate in the 2018 similar period.

The condensate production, due to geological conditions that have changed compared to previous periods, is currently absent or in any case of modest size, such as to make the separation process non-economic.

Italy Electricity production

During the three months and the financial year ended March 31, 2019, the Company sold 2,752 and 9,433 MWh of electricity from its Italian electricity production assets, as compared to 760 and 7,975MWh for the corresponding period of 2018

Electricity production remained consistent for all the quarters since the cogeneration plant was acquired, as detailed in the following table.

Italy Electricity Production	Production MWh
Q1 2018	2,552
Q2 2018	2,741
Q3 2018	1,922
Q4 2018	790
Q1 2019	2,683
Q2 2019	1,883
Q3 2019	2,114
Q4 2019	2,752

Revenues

	Three months ended March 31,		**Year ended March 31,**	
	2019	**2018**	**2019**	**2018**
Commodity Prices				
Oil and gas prices				
Oil (Azerbaijan $/bbl)	**63.83**	63.35	**75.18**	56.48
Condensate ($/bbl)	**-**	79.51	**63.69**	75.20
Gas ($/mcf)	**8.86**	5.41	**8.65**	7.80
Total oil and gas ($/boe)	**63.56**	68.96	**74.62**	56.34
Electricity ($/mcf)	**5.10**	14.25	**4.77**	5.39
Revenues (CAD$'000)				
Oil and gas revenue				
Oil (Azerbaijan)	**1,330**	1,720	**6,430**	5,505
Condensate (Italy)	**-**	9	**40**	54
Gas (Italy)	**29**	16	**94**	132
Total oil and gas (CAD$)	**1,359**	1,745	**6,564**	5,691
Electricity (CAD$)	**214**	170	**692**	599
Total (CAD$)	**1,573**	1,915	**7,256**	6,290

Oil Revenue

Oil revenue earned in Azerbaijan for the three months and year ended March 31, 2019 was CAD$ 1,330k and CAD$ 6,430k versus CAD$1,720k and CAD$5,505k in the comparative 2018 period.

The price per bbl received for oil during the three months and year ended March 31, 2019 was CAD$63.83 and CAD$75.18 per bbl, as compared to CAD$63.35 and CAD$56.48 per bbl earned on condensate sales during the three and and year ended March 31, 2018, respectively

Condensate Revenue

The price per bbl received for condensate during the three months and year ended March 31, 2019, was CAD$nil and CAD$63.69 per bbl as compared to CAD$79.51 and CAD$75.20 per bbl earned on condensate sales during the the three months and year ended March 31, 2018, respectively.

Gas Revenue

The price per mcf received for condensate during the the three months and year ended March 31, 2019, was CAD$8.86 and CAD$8.65 per mcf of gas, as compared to CAD$5.41 and CAD$7.80 per mcf earned on gas sales during the the three months and year ended March 31, 2018, respectively.

In general, gas prices are also impacted by fluctuations in the base price of European 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 determined by the market.

Italy Electricity Production	Production MWh	Gross Revenues CAD$'000	Average Price CAD$/MWH
Q1 2018	2,552	$ 127	$ 49.65
Q2 2018	2,741	$ 157	$ 57.25
Q3 2018	1,922	$ 145	$ 75.44
Q4 2018	790	$ 170	$ 215
Q1 2019	2,683	$ 188	$ 70.07
Q2 2019	1,883	$ 154	$ 81.78
Q3 2019	2,114	$ 158	$ 74.74
Q4 2019	2,752	$ 214	$ 77.69

General and Administrative Expenses ("G&A")

During the yer ended March 31, 2019, the Group incurred CAD$ 7,957k (2018 - CAD$ 6,767k) of Administrative Expenses. Furthermore, during the same period the Group incurred CAD$ 2,706k (2018 - CAD$ 487k) of non-recurrent expenses which relate to the cost of raising funds, negotiation for potential acquisition of producing assets and the share based payments costs, which is a non-cash item.

	Year ended	
	March 31, 2019	**March 31, 2018**
	CAD$'000	**CAD$'000**
Auditors remuneration - audit fees Group	**129**	110
Auditors remuneration - associates of Group auditors	**-**	45
Accounting and bookkeeping	**30**	123
Consultancy fees	**1,021**	1,135
Legal	**163**	507
Other professional fees	**-**	48
Office	**627**	273
Administrative expenses	**481**	1,159
Foreign exchange (gain)/loss	**(314)**	563
Other administrative expenses	**-**	74
Salaries	**2,547**	1,695
Travel	**567**	548
General and administrative expenses	**5,251**	**6,280**
Non-recurrent expenses		
Bond issue costs	**127**	-
Listing costs (Norway and UK)	**1,167**	-
Aborted Transaction Costs	**405**	-
Share based payments	**1,007**	487
Total non-recurrent expenses	**2,706**	**487**
Total general and administrative expenses	**7,957**	**6,767**

Depletion and depreciation

	Three months ended March 31,		Year ended March 31,	
	2019	2018	**2019**	2018
	CAD$'000	CAD$'000	**CAD$'000**	CAD$'000
Azerbaijan	**712**	1,103	**1,875**	1,636
Italy	**311**	491	**375**	585
Other	**22**	(349)	**50**	-
Total (CAD$'000)	**1,045**	1.245	**2.282**	2,221
Azerbaijan $/bbl	**35.23**	40.63	**22.51**	16.78
Italy $/boe	**41.43**	188.77	**14.08**	26.54
Total $/boe	**36.87**	41.85	**20.35**	18.58

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** * $
2019			
Fourth quarter ended March 31, 2019	1,573	(3,885)	(0.01)
Third quarter ended December 31, 2018	1,559	(2,600)	(0.03)
Second quarter ended September 30, 2018	2,243	(654)	(0.02)
First quarter ended June 30, 2018	1,881	(2,623)	(0.01)
2018			
Fourth quarter ended March 31, 2018	617	(10,487)	(0.07)
Third quarter ended December 31, 2017	1,620	148	0.01
Second quarter ended September 30, 2017	1,115	106	0.01
First quarter ended June 30, 2017	1,667	315	0.01

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

- The net revenues in the fourth quarter of 2019 FY increased due to the increase in the oil selling price on the international markets;
- The net revenues in the third quarter of 2019 FY declined due to a decrease in the oil selling price on the international markets;
- The revenues increased in the first and second quarter of 2019 FY due to an increase of production and the increase of the oil selling price on the international markets;
- The net revenues decreased in the fourth quarter of the 2018 FY year because of the reclassification, by the auditors, of the selling/transportation costs and share profit for the partner in Azerbaijan. The oil revenues are now net of these amounts.
- The loss of the last quarter of the year ended March 31, 2018, was caused by expenses relating to find raising for the Company operations and the increase in the operations themselves.

LIQUIDITY RISK AND CAPITAL RESOURCES

Financial assets	March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
Financial assets held at amortised cost	5,413	1,908
Cash and cash equivalents	3,058	2,497
Total financial assets	8,471	4,405

2019 Financial liabilities	Financial liabilities at amortised cost CAD $'000
Trade and other payables	12,115
Loans	7,193
Non-convertible bond and notes	4,958
Deferred consideration	483,854
Total financial liabilities	508,120

2018 Financial liabilities	Financial liabilities at amortised cost CAD $'000
Trade and other payables	9,238
Loans	5,186
Non-convertible bond and notes	407
Deferred consideration	484,205
Total financial liabilities	499,036

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

Zenith's policy is to maintain an appropriate financial position to sustain future development of the business. There were no changes to the Group's capital management approach during the year ended March 31, 2019.

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

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

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

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Group's maximum credit risk exposure is limited to the carrying amount cash of CAD $3,223k (2018 – CAD $2,497k) and trade and other receivables of CAD $5,248k (2018 – CAD $1,885k).

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

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

	March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
Oil and natural gas sales	1,321	1,623
Stamp tax and other tax withholdings	-	31
Goods and services tax	41	19
Other	4,051	212
	5,413	1,885

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

The Group considers its receivables to be aged as follows:

	March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
Current	1,238	1,549
90 + days	124	124
	1,362	1,673

b) *Liquidity risk*

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

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

As of March 31, 2019, 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 2020	Due on or before 31 March 2021	Due after 31 March 2021
	CAD $'000	CAD $'000	CAD $'000	CAD $'000	CAD $'000
Trade and other payables	12,115	12,115	12,115	-	-
Loans	7,193	8,131	6,006	1,175	950
Non-convertible bond	4,958	5,171	269	76	4,826
Deferred consideration	483,854	1,143,463	45,421	65,661	1,032,380
	508,120	1,168,880	63,811	66,912	1,038,156

c) *Foreign currency risk*

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange rates to Canadian dollars for the noted dates and periods are as follows:

Closing rate **Average rate**

	2019	2018	2019	2018
US dollars	1.3347	1.2892	1.3120	1.2649
Euro	1.4971	1.5884	1.5186	1.5515
Swiss Franc	1.3408	1.3502	1.3245	1.3328
British Pound	1.7382	1.8060	1.7218	1.7588

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

	March 31, 2019 CAD $'000	**March 31, 2018 CAD $'000**
US dollars	63	62
Euro	18	16
Swiss Franc	226	235
British Pound	-	-
	307	313

d) Commodity price risk

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

As at March 31, 2019, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the year ended March 31, 2019 of approximately CAD $7k (2018 – CAD $7k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the year ended March 31, 2019 of approximately CAD $35k (2018 – CAD $29k).

As at March 31, 2019, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net loss for the year ended March 31, 2019 of approximately $219k (2018 – $210k).

e) Interest rate risk

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

SUBSEQUENT EVENTS

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

The Company used the proceeds of the Financings to provide additional funding for its existing well deepening programme in Azerbaijan and for general working capital.

Canadian Financing

Zenith issued a total of 20,000,000 common shares of no par value in the capital of the Company ("Common Shares") at a price of CAD$0.05 in connection with the Canadian Financing to raise gross proceeds of CAD$1,000k (approximately £570k).

UK Financing

Zenith issued a total of 17,647,059 Common Shares of no par value in the capital of the Company at a price of £0.0255 (approximately CAD$0.045) in connection with the UK Financing and raised gross proceeds of £450k (approximately CAD$790k).

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

Zenith issued a total of 14,334,602 Common Shares at a price of £0.028 (approximately CAD$0.049) in connection with the Financing to raise gross proceeds of £401k (approximately CAD$703k).

The Company used the proceeds of the Financing to purchase a Top Drive system and additional equipment for the mud system of the BD-260 drilling rig to ensure increased performance during well C-37 drilling operations. The Top Drive system and additional mud system components was delivered in June 2019.

Total Voting Rights

In accordance with the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, the following information following Admission of the Financing Common Shares:

Class of share	Total number of shares	Number of voting rights per share	Total number of voting rights per class of share
Common shares in issue and admitted to trading on the Main Market of the London Stock Exchange	258,404,153	1	258,404,153
Common shares in issue and admitted to trading on the TSXV	312,408,725	1	312,408,725
Common shares in issue and admitted to trading on the Merkur Market of the Oslo Børs	312,408,725	1	312,408,725

GOING CONCERN

The financial statements have been prepared on a going concern basis which presumes that the Group will continue its operations in the normal course of business for the foreseeable future. In accordance with the terms of the Rehabilitation, Exploration, Development and Production Sharing Agreement ("**REDPSA**") with the State Oil Company of the Republic of Azerbaijan ("**SOCAR**"), the Group has an obligation to achieve certain production levels within two years from the date of SOCAR's approval of the Rehabilitation and Production Programme which falls on 3 Ocotber 2019. The Group is required to increase production levels from the 2015 average daily production of approximately 310 STB per day by 1.5 times, that is 465 STB per day, for a period of 90 consecutive days before the deadline elapses. Failure to meet the required production levels would result in a material breach of the REDPSA and may result in termination which could lead to loss of title to the Azerbaijani oil and gas asset, as well as non-recovery of the costs incurred by the Group with respect to the contract area since inception.

The Group is currently operating at an average of 238 STB per day (2018: 270 STB per day) and therefore has not yet reached the required production volumes. The production deadline is just over 3 months away which means that production must reach or exceed 465 STB on or before 12 July 2019 for 90 consecutive days in order to satisfy the obligation. The Directors believe that the planned drilling activities with the assistance of the newly refurbished drilling rig in the near-term will allow the Group to reach the aforementioned production levels to meet its REDPSA obligations. The Directors also believe that should the obligation within the REDPSA not be achieved within the aforementioned timescale, SOCAR would not exercise its right to take ownership of the project, which is based the

Directors operational experience and supported by research undertaken by the Group into similar Companies who have breached similar REDPSA terms with SOCAR.

The Directors have reviewed the cash flow forecasts prepared by management up to and including July 2020, which are prepared on the basis that the Group continues to hold title to the Azerbaijani oil and gas asset and which takes into account the fund raises completed post year end, as well as loan repayments which fall due within 12 months of the date of the signing of the financial statements. The cashflow forecasts also include the capital expenses in respect of well workovers and drilling which the Group believe will be covered by a combination of funding generated by operations and the funds raised post year end, as well as further planned fund raises within the going concern period. The Directors believe that the planned fund raises via the various sources of capital available to the Group will be successful. The Group's ability to raise funds has been demonstrated in the year ended 31 March 2019. However, as at the date of approval of the financial statements, these funds have not been secured. Furthermore, in order to operate at the levels of production stated in the competent persons report ("**CPR**") the Group will need to raise additional funding over the life of the project to meet the capital expenditure required over and above the levels included within the cash flow forecasts.

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

The Auditors have made reference to going concern by way of a Material Uncertainty within their audit report.

SHARES AND CONVERTIBLE, EXERCISABLE AND EXCHANGEABLE SECURITIES

Zenith is authorised to issue an unlimited number of Common Shares, of which 101,628,366 were issued at no par value and fully paid during the year ended March 31, 2019 (March 31, 2018 – Total Common Shares in issue: 158,798,698). All Common Shares have the right to vote and the right to receive dividends. Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of this Document. The Directors of the Company may by resolution fix the rights, privileges, restrictions and conditions of the preferred shares of each series.

Following the issue of the new Ordinary Shares, the Company had 260,427,064 common shares in issue and admitted to trading on the Toronto Stock Exchange Venture Exchange and Mekur Market of the Oslo Bors, as of March 31, 2019.

As of the same date, Zenith had 226,422,852 common shares oustanding and admitted to trading on the Main Market of the London Stock Exchange.0 The Group's ordinary shares are all fully paid and have not been allocated a par value.

Zenith is authorised to issue an unlimited number of Common Shares, of which 101,628,366 were issued at no par value and fully paid during the year ended March 31, 2019 (2018 – 43,221,468). All Common Shares have the right to vote and the right to receive dividends. Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of these Financial Statements. The Directors of the Group may by resolution fix the rights, privileges, restrictions and conditions of the preferred shares of each series.

Following the issue of the new Ordinary Shares, the Group had 260,427,064 common shares in issue and admitted to trading on the Toronto Stock Exchange Venture Exchange and Mekur Market of the Oslo Bors, as of March 31, 2019.

As of the same date, Zenith had 226,422,852 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange.

Issued	Number of common shares	Amount CAD $'000
Balance – April 1, 2017	**115,577,230**	**17,229**
Exercise of stock options	1,000,000	-
Exercise of warrants	1,019,250	153
Balance – June 30, 2017	**117,596,480**	**17,382**
Non-brokered unit private placement	3,533,333	438
Finder's fee	-	(22)
Non-brokered unit private placement	2,666,667	328
Finder's fee	-	(16)
Non-brokered unit private placement	666,666	82
Finder's fee	-	(4)
Non-brokered unit private placement	3,600,000	404
Finder's fee	-	(20)
Exercise of stock option	1,000,000	100
Settlement of debt	111,131	17
Balance – September 30, 2017	**129,174,277**	**18,689**
Exercise of warrants	2,049,775	307
Exercise of warrants	1,257,875	189
Exercise of warrants	1,306,050	261
Exercise of warrants	500,000	75
Exercise of warrants	1,612,142	322
Exercise of warrants	3,150,000	473
Exercise of stock option	2,000,000	200
Exercise of warrants	400,000	80
Exercise of stock option	1,000,000	150
Exercise of stock option	1,650,000	202
Exercise of warrants	100,000	20
Balance – December 31, 2017	**144,200,119**	**20,968**
Non-brokered unit private placement	4,000,000	500
Non-brokered unit private placement	9,000,000	1,158
Finder's fee	-	(58)
Settlement of debt	1,598,579	224
Balance – April 1, 2018	**158,798,698**	**22,792**
Settlement of debt (i)	1,123,068	185
Non-brokered unit private placement (oo)	54,172,451	3,694
Finder's fee	-	(187)
Balance – June 30, 2018	**214,094,217**	**26,484**
Finder's fee	-	(5)
Balance – September 31, 2018	**214,094,217**	**26,479**
Settlement of debt (iii)	2,225,941	186
Non-brokered unit private placement (iv)	20,782,429	1,141
Non-brokered unit private placement (v)	2,857,143	157
Finder's fee	-	(107)
Balance – December 31, 2018	**239,959,730**	**27,856**
Non-brokered unit private placement (vi)	10,364,640	517
Non-brokered unit private placement (vi)	10,102,694	519

Finder's fee	- -	(26)
Balance – 31 March 2019	**260,427,064**	**28,866**

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

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

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

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

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

v) On November 12, 2018, the Group completed a private placement on the Merkur Market of the Oslo Børs with Norwegian investors raising gross proceeds of NOK 1 million (approximately £92k or CAD$157k) through the placement of 2,857,143 common shares of no par value (the "**Placement Shares**") at a subscription price of NOK 0.35 per Placement Share (approximately £0.032 or CAD$0.055).

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

Canadian Financing

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

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

12. Warrants and options

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD$'000
Balance – April 1, 2017	**5,000,000**	**56,995,908**	**0.21**	**1,877**
Options issued	2,750,000	-	0.15	200
Warrants exercised	-	(1,019,250)	0.15	(153)
Expired	-	(7,533,833)	0.25	(220)
Balance – June 30, 2017	**7,750,000**	**48,442,825**	**0.20**	**1,704**
Options issued	2,000,000	-	0.17	305
Warrant issued	-	180,000	0.07	12
Options excercised	(3,900,000)	-	0.10	(226)
Options excercised	(1,750,000)	-	0.12	(98)
Warrants excercised	-	(10,375,842)	0.25	(53)
Warrants expired	-	(2,349,320)	0.15	(76)
Warrants expired	-	(8,870,019)	0.25	(693)
Balance – April 1, 2018	**4,100,000**	**27,027,644**	**0.19**	**875**
Options issued	10,500,000	-	0.12	927
Warrants issued	-	1,280,000	0.07	43
Warrants expired	-	(1,807,500)	0.25	(192)
Warrants expired	-	(8,628,813)	0.15	-
Balance – June 30, 2018	**14,600,000**	**17,871,331**	**0.19**	**1,653**
Warrants issued	-	6,977,988	0.05	59
Warrants expired	-	(1,350,000)	0.25	(46)
Options expired	(1,000,000)	-	0.15	(119)
Options expired	(1,500,000)	-	0.17	(193)
Options expired	(1,000,000)	-	0.12	(88)
Warrants expired	-	(4,214,125)	0.25	(107)
Warrants expired	-	(732,920)	0.20	-
Balance – December 31, 2018	**11,100,000**	**18,552,274**	**0.15**	**1,159**
Warrants issued	-	11,358,390	0.10	65
Warrants expired	-	(10,114,286)	0.18	(77)
Balance – March 31, 2019	**11,100,000**	**19,796,378**	**0.12**	**1,147**

Type	Grant Date	Number of options	Exercise price per unit CAD$	Expiry Date
Stock options	November 2016	**1,100,000**	0.10	November 2021
Stock options	May 2017	**1,000,000**	0.15	May 2022
Stock options	November 2017	**2,000,000**	0.18	November 2022
	TOTAL OPTIONS	**4,100,000**		
Stock options	November 2016	**1,100,000**	0.10	November 2021
Stock options	November 2017	**500,000**	0.18	November 2022
Stock options	April 2018	**9,500,000**	0.12	April 2023
	TOTAL OPTIONS	**11,100,000**		

Options

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

As at March 31, 2019, the Group had 11,100,000 stock options outstanding (relating to 11,100,000 shares) and exercisable at a weighted average exercise price shown on the table above per share with a weighted average life remaining of 3.73 years.

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

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

Granting of options

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

Expiry of options

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

Type	Grant Date	Number of Warrants	Price per unit CAD$	Expiry Date
Warrants	Apr 2015	**1,417,500**	0.25	April 2018
Warrants	May 2015	**390,000**	0.25	May 2018
Warrants	September 2015	**1,350,000**	0.25	September 2018
Warrants	November 2015	**4,214,125**	0.25	November 2018
Warrants	April 2016	**8,128,813**	0.15	April 2018
Warrants	June 2016	**500,000**	0.20	June 2018
Warrants	November 2016	**732,920**	0.20	November 2018
Warrants	January 2017	**1,114,286**	0.11	January 2019
Warrants	January 2017	**9,000,000**	0.24	January 2019
Warrants	January 2018	**180,000**	0.17	January 2020
	TOTAL WARRANTS	**27,027,644**		
Warrants	January-18	**180,000**	0.16	January-20
Warrants	April-18	**93,750**	0.40	May-21
Warrants	June-18	**1,280,000**	0.07	June-21
Warrants	Septeber-18	**6,977,988**	0.05	February-20
Warrants	February-19	**10,364,640**	0.10	February-20
Warrants	Ferbruary 19	**900,000**	0.10	Ferbruary 20
	TOTAL WARRANTS	**19,796,378**		

As at March 31, 2019, the Group had 19,796,378 warrants outstanding (relating to 19,796.378 shares) and exercisable at a weighted average exercise price of CAD$0.08 per share with a weighted average life remaining of 1.44 year.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

OUTLOOK

Zenith's business activities are set out in the financial statements. In addition, note 19 of the financial statements discloses the Company's financial risk management policy, and note 2 details further considerations made by the Board of Directors in respect of going concern.

The Directors, having made due and careful enquiry, are of the opinion that Zenith 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 Zenith has adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the financial statements.

The Company's primary operational goal is to successfully increase oil production from its Azerbaijan assets, as well as consolidating its Italian energy production and exploration portfolio. In addition, the Company is also seeking to complete value accretive acquisitions of oil and gas production and exploration assets with significant undeveloped commercial value where the Company's operational qualities may be best applied.

THE COMPANY'S PLANS FOR THE ANS FINANCIAL YEAR INCLUDE:

(a) **Italy:** After the acquisition of 9 producing licenses and 4 exploration applications from Mediterranean Oil & Gas Plc., Zenith has evaluated drilling opportunities in these permits and will formalise 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 assets. Natural gas from two assets 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 in the Macchia Nuova area (part of the San Teodoro Concession) and plans are being formulated to drill this prospect in the future. Plans for side-track drilling operations at the Masseria Petrilli and the drilling of a new well in the San Teodoro concession are also being evaluated. These activities are expected to increase Zenith's natural gas production in Italy.

Submission of extensive environmental reports relating to the commencement of production of the Torrente Vulgano gas concession has been completed and preliminary approval has been received. The Company is now looking forward to beginning production operations once final approval is received. Production of natural gas from the Torrente Vulgano concession is expected to commence by 2020.

Improvements of facilities at San Teodoro will be completed with the tie-in of new dehydration equipment. While the field has been capable of production, a lack of regional infrastructure has 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 asset, which is anticipated to resume production in 2019. Production from the existing wellbore is expected to commence at 3,000 cubic meters/day (106 MCF/d or 18 boepd), increasing Zenith's current daily production in Italy by 25%, to over 100 boepd. The costs of the refurbishment necessary for the resumption of production have been calculated as €300k and will be paid through an equipment leasing facility.

Zenith is also evaluating the possibility of drilling a deviated well into the crestal formation of the Torrente Salsola structure, where the Company holds a 100% working interest, in order to unlock residual reserves. The Company has an ambitious programme to enhance its Italian daily gas production rate in the Puglia Region by 100% by performing a number of well workovers as part of a rehabilitation programme.

Zenith intends 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 enabling it to be sold into the national pipeline grid. The development plan will be submitted to the relevant authorities for their analysis and necessary prior approval. Approval is expected to be received by 2020.

(b) **Azerbaijan:** On June 20, 2016, the Rehabilitation, Exploration, Development and Production Sharing Agreement ("**REDPSA**") for the Area in the Republic of Azerbaijan was ratified by the Parliament of the Republic of Azerbaijan and enacted into national law once signed by the President of the Republic of Azerbaijan. The Area covers an area of 642.4 sq. kilometres and, at the time of the formal finalisation of the transaction, the Area was producing approximately 300 bopd, having produced significantly larger quantities historically. Minor quantities of natural gas are also produced and used onsite. In subsequent months the Company reported increases in its production.

The term of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's development programme. 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 approximately 2 hours by car from Zenith's field office where field operations are managed, located in the southern region of Azerbaijan. Azeri field management personnel have been supplemented with the hiring of international managers and petroleum engineers who provide international expertise and specialist knowledge in order to achieve Zenith's strategy of significantly increasing oil production from the Area.

Zenith Aran, the Company's wholly-owned subsidiary, acts as the operating entity for the management of the Azerbaijan oil assets.

On August 11, 2016, the handover of the Azerbaijan assets was formally completed with the necessary signatures on related documents and the Company commenced oil production operations at a rate of approximately 275 barrels per day.

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

Field rehabilitation Activities

The Company has undertaken numerous workovers and other operational activities between the effective date of the REDPSA in August 2016 and the date of this document, as summarized in the following table.

January 2017	Signed a service contract with a well-established local oilfield service company to perform the workovers of wells M-195 and M-45 located in the Muradkhanli field
February 2017	Division of the field rehabilitation activities between two teams: 'Team A' and 'Team B'. • Team B was staffed by personnel from the oilfield service company contracted to perform the workovers of wells M-195 and M-45, operating the Service Company's workover rig. • Team A was staffed by Zenith's field personnel, operating the Company's A-80 workover rig inherited by SOCAR.
March 2017	1. Successfully resolved obstructions in Well M-195, enabling to reach the top of the production liner section at 3,014 metres. 2. Modernisation work of its A-80 rig was fully completed.

	3. Installation of a new ESP in wells M-70 and M-48 in the Muradkhanli field and well C-34 in the Jafarli field
April 2017	1. Pump replacements in wells C-31 and C-34 in Jafarli field and wells M-67 and M-70 in the Muradkhanli field. 2. Well C-39 in the Jafarli field had pump repair work performed to address minor technical problems. 3. The field rehabilitation activities resulted in a net increase of 14 barrels of oil per day in total across the five wells. 4. Team A began workover operations at well M-45 in the Muradkhanli field. 5. The Company also commenced sidetrack operations at well M-195 with the arrival of the required larger workover rig.
May 2017	Announced the appointment of a Chief Operating Officer, Mike Palmer, to lead its operations in Azerbaijan
June 2017	Announced the success of its side-track operations at well M-195.
July 2017	1. The workover of M-45 was successfully completed; a production rate of 46 bopd was achieved, but potentially higher flowrates were inhibited by partial blockages of old well material. 2. Restored production at well M-66 in the Muradkhanli field, achieving a flow rate of 50 bopd.
August 2017	1. Signed a contract for the procurement of oil production materials with Kerui petroleum, a leading Chinese manufacturer of oilfield equipment, for a value of the procurement contract of US$1,705,608 (approximately £1,325,000; CAD$2,146,000), by which: • Zenith paid the 15% of the contract value in advance as deposit. • The materials procured include: a blowout preventer (BOP); a full set of well control equipment; drill pipes to be used as a work string; tubing to be used in the installation of new electric submersible pumps and in old wells that have been returned to production; new oilfield infrastructure; lighting equipment; and a generator system to enable a workover rig to operate without the need for nearby infrastructure across Zenith's 642.4 km2 field area. 2. Successful installation of the custom-built Schlumberger ESP in well M-45 in the Muradkhanli field. Following the installation, the well achieved a production rate of 49 bopd.
September 2017	1. Began the installation of ESPs in a further 11 wells, employing its own A-80 workover rig, upgraded earlier in the year, and a similar sized workover rig operated by an experienced local oilfield service company. 2. Successful perforation of well C-26 in the Jafarli field; the well achieved a production rate of 70 bopd; it was previously not producing.
October 2017	1. Successful perforation of a new, unexploited production zone in well C-21 in the Jafarli field, achieving a flow rate of 15 bopd. Prior to the perforation well C-21 was non-producing. 2. Experienced difficulties in its workover of the Z-21 well, which initially flowed at a rate below 5 bopd.
December 2017	1. Cleaned out well Z-28. However, during the post-workover inspection of the wellhead, Zenith's petroleum engineers observed a leak during a pressure test from the wellhead in the 9 5/8 inches casing seal assembly, delaying further activity. To resolve this problem, the Company contracted a UK-based company specialised in oilfield leak-sealing technology with an established presence in Azerbaijan 2. Completed the civil works on the roads to well Z-21 and at the well location.
January 2018	Signed a purchase agreement for the order of a new workover rig with a manufacturer based in Azerbaijan. The total value of the purchase agreement contract was approximately CAD$440k (approximately £251k).
February 2018	1. Successfully cleaned out the entirety of the tubing string in well Z-21, circulating and drilling out mud and debris that had accumulated since the well was last

	produced in 1988. Due to the small coiled tubing bit (1.875 inches) and the restricted diameter of the tubing, the casing could not be cleaned out further. To rectify this the Company prepared its A-80 workover rig to pull the tubing string from the well. Once completed, it will run in hole with a drill bit and clean out the casing to total depth, 3,982 metres. The well will subsequently be put on production. 2. Successfully sealed the wellhead leaks in well Z-28 and subsequent coiled tubing intervention cleaned out the well to a depth of 3,583 meters; however, it was determined that it would have to mill out 63 metres of tubing inside the liner and then clean out an additional 298 metres of the liner to a total depth of 3,944 metres to complete the workover. 3. The Company's A-80 workover rig received further upgrades to increase its capabilities and enable it to be utilised more extensively in the Company's workover operations. This will be supplemented by an A-100 truck-mounted workover rig ordered in January 2018. 4. Successfully installed seven electrical submersible pumps. While this resulted in an uplift in production, it has also reduced production downtime that had been observed as a recurrent problem with the previous generation of electrical submersible pumps.
June 2018	On June 25, 2018, the Company's oilfield service subsidiary, Zena Drilling Limited, ("**Zena**"), signed a revised commitment letter (the "**Revised Commitment Letter**") for the operating lease of a Genesis BQ500 onshore drilling rig ("**BQ500**") with Olieum Services WLL ("**Olieum**"), an integrated oilfield services and equipment joint venture based in Bahrain. The Revised Commitment Letter superseded the letter signed on November 1, 2017, and it includes more favourable terms for the Company in a number of areas. The BQ500 is a 2,000hp automated hydraulic drilling rig built by Robotics.
August 2018	On August 13, 2018, the Company completed two comprehensive geological studies to optimise the selection of potential drilling locations and workover opportunities across the Muradkhanli, Jafarli and Zardab oilfields. The studies have provided a significantly enhanced understanding of the hydrocarbon production of the Company's operations in Azerbaijan which will have a direct influence in shaping the Company's operational activities going forward.
September 2018	On September 5, 2018, the fully owned subsidiary Zena Drilling Limited signed a purchase agreement for the acquisition of a BD-260 drilling rig assembled by B Robotics W S.r.l., for a total consideration of €2,250,200. The agreement supersedes the six-month rental agreement Zena had signed with Robotics for the BD-260 drilling rig dated June 6, 2018. In addition, Robotics confirmed it would provide its highly experienced drilling personnel for a minimum of 6 months as part of the aforementioned agreement. In addition, the Company announced that it was formalising a tender process in Azerbaijan for the leasing of a 180-ton truck-mounted workover and drilling rig for a period of four months.
October 2018	On October 15, 2018, the Company announced that it was preparing to commence drilling operations, having finalised a programme to deepen well C-37 in the Jafarli field. This has been based on a series of in-depth geological investigations, including analysis of 2D and 3D seismic lines, which have evidenced a highly prospective, unexploited structure comprised of Upper Cretaceous carbonates formations.
November 2018	On November 2, 2018, the Company announced that it had begun a comprehensive reservoir engineering study to achieve the optimisation of production from active and shut-in production wells across the Muradkhanli,

	Jafarli and Zardab oilfields in Azerbaijan. The findings of the reservoir study will complement the two comprehensive geological studies previously completed by the Company, announced on August 13, 2018, whose scope was focused on the selection of infill drilling locations across its field area in preparation for the beginning of drilling activities in Azerbaijan. The primary goal of the reservoir study will be the achievement of a material improvement in Zenith's understanding of its reservoir base in order to perform well interventions, including sidetracks and perforations, that might unlock significant reserves in historically highly productive wells. The study will also result in the creation of a fully digitalised database that will incorporate all existing printed reservoir data.
January 2019	On January 23, 2019, the Company announced that its oilfield service company subsidiary, Zena Drilling Limited, ("**Zena**"), purchased drilling equipment and accessories from B Robotics W S.r.l., ("**Robotics**") for a total amount of approximately EURO 722,000.
February 2019	Preparation activities for well deepening operations in well C-37 of the Jafarli Field were completed successfully. The Company defined an agreement with a third-party service provider to begin civil works at the C-37 well location and expects mobilisation of the necessary equipment to take place in due course. Zenith's operational team has performed cleanout operations in well C-26 with the target depth of 3,920 metres (production casing shoe) using the Company's A-80 truck-mounted workover rig to determine the well's suitability for deepening operations. As announced on January 7, 2019, well C-26, an adjacent well to C-37 in the Jafarli Field, intersects the Middle Eocene and Upper Cretaceous formations of the same unexploited structure identified as the target zone for well deepening operations in well C-37. During the cleanout it was discovered that well C-26 has production casing damage at a depth of 1,630 metres rendering the well unsuitable for well deepening operations. The Company's operational team mobilised the A-80 workover rig to a second adjacent well to C-37, C-30, where it is performing similar well tests to determine the integrity of the production casing and thereby ascertain whether well C-30 might be suitable for well deepening activities. BD-260 Drilling Rig The Company received confirmation from B Robotics W S.r.l., ("Robotics") that shipment of the BD-260 drilling rig, purchased by Zenith's oilfield service company subsidiary, Zena Drilling Limited, is in progress. In addition, as announced on January 23, 2019, the drilling equipment purchased from Robotics for a total of EUR 720,000 was transported in the same shipment.
March 2019	The Company's oilfield service subsidiary, Zena Drilling Limited, ("Zena"), begun mobilisation of the BD-260 drilling rig to well C-37 in the Jafarli Field.

One workover rig is active at present. A further new workover rig has been purchased and is scheduled to be operational during 2019. Additional equipment may be purchased or contracted as required to optimize field redevelopment.

The historical performance of each well including peak rates, cumulative oil and water production, and recent performance has been studied to identify wells that are likely to have successful workover. The results of previous workovers were noted. Although most wells flow to surface, the installation of electrical submersible pumps was usually very beneficial and is expected to form part of most future workovers.

In addition to the 33 recently shut in or marginal producing wells, five non-producing wells completed in the Maykop zone in the Zardab field are expected to be worked over and to be returned to production after wellbore and sand production problems have been resolved. Depending on the results of the programme, the Zardab field may be more fully developed.

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 primarily centres its focus on the successful development of its operations 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;
- Operational 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 minimise these business risks by:

- Employing management, technical staff and consultants with extensive industry experience;
- Maintaining a low-cost structure;
- Enforcing prudent financial practices;
- Ensuring effective oversight on the timing and magnitude of operations and their related capital costs;

- Working with established industry partners; and
- Being insured, in accordance with industry standards, against the risk of liabilities such as pollution, blow-outs, property damage, personal injury and other hazards.

OTHER

Additional information about the Company can be found on SEDAR at: **www.sedar.com**.