



**UNAUDITED INTERIM FINANCIAL INFORMATION FOR SIX MONTHS ENDED
SEPTEMBER 30, 2019 AND COMPARATIVE PERIOD (SEPTEMBER 30, 2018).**

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements for the three and six Months ended September 30, 2019.

Management's Responsibility

To the Shareholders of Zenith Energy Ltd.:

The accompanying unaudited condensed interim consolidated financial statements of Zenith Energy Ltd. (the "**Company**" or the "**Group**") for the three and six months ended September 30, 2019 have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the Company. The unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on currently available information.

(signed) "Andrea Cattaneo"
President and Chief Executive Officer

(signed) "Luca Benedetto"
Chief Financial Officer

November 14, 2019.

Calgary, Alberta

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COMPANY INFORMATION

Directors

Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)
Andrea Cattaneo (Chief Executive Officer & President, Executive Director)
Luigi Regis Milano (Executive Director)
Dario Ezio Sodero (Non-Executive Director)
Erik Larre (Non-Executive Director)
Sergey Borovskiy (Non-Executive Director)

Registered Office

20th Floor, 250 Howe Street
Vancouver, BC V6C 3R8, Canada

Head Office

15th Floor, Bankers Court
850 – 2nd Street S.W., Calgary, Alberta, T2P 0R8 Canada
Telephone Number: +1 (587) 315 9031

Registered Corporation Number

BC0803216

Website

www.zenithenergy.ca

Corporate Brokers

Peterhouse Capital Limited
3rd Floor, New Liverpool House
15 Eldon Street
London EC2M 7LD

Novum Securities Limited
8-10 Grosvenor Gardens
Belgravia
London SW1W 0DH

Independent Auditor

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

COMPANY INFORMATION (CONTINUED)

Principal Bankers

Barclays Bank PLC
1 Churchill Place
Canary Wharf
London
E14 5HP

Canadian Western Bank
Calgary Main
606-4 Street S.W.
Calgary Alberta T2P 1T1, Canada

Competent Person

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

Depositary and Registrar

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

Computershare Investor Services Plc
The Pavilions Bridgwater Road
Bristol, BS99 6ZZ, United Kingdom

HIGHLIGHTS

Highlights for the six months ended September 30, 2019, include the following:

- a) The Group generated gross revenues from oil and natural gas of CAD\$2,651k (2018 – CAD\$3,803k) and from electricity CAD\$305k (2018 – CAD\$321k) in the six months ended September 30, 2019.
- b) During the three and six months ended September 30, 2019 the Company produced 19,878 and 40,396 bbls of oil from its assets in Azerbaijan, as compared to 22,133 and 45,523 bbls of oil produced in the 2018 similar period.
- c) During the three and six months ended September 30, 2019 the Company sold 18,707 and 39,122 bbls of oil from its assets in Azerbaijan, as compared to 18,813 and 38,695 bbls of oil sold in the 2018 similar period.
- d) During three and six months ended September 30, 2018, the Company sold 2,647 and 5,499 mcf of natural gas from its Italian assets, as compared to 2,641 and 3,978 mcf of natural gas in the 2018 similar period.
- e) During the three and six months ended September 30, 2018, the Company sold 2,669 and 5,448 MWh of electricity from its Italian electricity production assets, as compared to 1,883 and 4,566 MWh for the corresponding period of 2018.
- f) On July 2, 2019, the totally owned Swiss based company Altasol SA repaid the CHF1,000k loan (see note 16 of the Financial Statements).
- g) On July 3, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options to acquire 622,407 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.
- h) On July 4, 2019 the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options to acquire 688,797 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.
- i) On July 5, 2019 the Italian based company Canoel Italia S.r.l., finished repaying the Euro 200,000 loan to Credito Valtellinese.
- j) On August 2, 2019, the Company completed a placing in Canada issuing a total of 47,812,500 Common Shares, at a price of CAD\$0.04 per unit, consisting of one common share of no par value in the capital of the Company ("**Common Shares**") and one full common share purchase warrant ("**Warrants**"), exercisable within 12 months at an exercise price of CAD\$0.10, raising gross proceeds of CAD\$1,912,500 (approximately £1,195,000 or NOK 12,856,000). The Company paid finder's fees for CAD\$34k.
- k) On September 17, 2019 the Company agreed to issue 6,589,678 common shares at an average price of CAD\$0.05 per common share, to settle debts of CAD\$303k owed by the Company.
- l) On October 1, 2019, 2019, the Company announced that, on September 30, 2019, it had successfully agreed to settle the USD loan with the Chinese lender liability for a total amount of US\$1,000,000, representing a reduction of US\$1,080,523.

The full amount of the principal, and related accrued interest, of the Loan Facility was represented and accounted as a liability in the audited Annual Financial Report of the Company as of March 31, 2019, for a total amount of US\$2,080,523. On October 24, 2019, the Company announced that it had repaid the first tranche of the settlement of this liability.

POST-PERIOD HIGHLIGHTS

- a) On October 9, 2019, the Company provided an update on drilling results at well C-37 in the Jafari oilfield, confirming that continued flow testing of the well recorded an increased production rate.

Further stimulation of the well, which may include swabbing operations as well as the performance of nitrogen stimulation, may further increase the rate of production. The Company will update the market in due course regarding these operations.

- b) On October 10, 2019, The Company announced that ARC Ratings, SA. ("ARC Ratings") has confirmed its final public "B+" issuer medium and long-term credit rating, with Positive outlook, assigned to the Company.
- c) On October 22, 2019, the Company announced closing of the Private Placement in the Merkur Market of the Oslo Stock Exchange first announced to the market on October 21, 2019.

The Company has successfully raised gross proceeds of 9,808,000 (approximately GBP 824,000 or CAD\$ 1,403,000) to subscribe for 28,022,857 common shares of no-par value in the capital of the Company ("New Common Shares") at a price of NOK 0.35 per New Common Share (approximately £0.03 or CAD\$0.05).

Zenith intends to use the net proceeds of the Private Placement to finance the purchase of long lead items and the beginning of civil works required in preparation for planned drilling operations at well M-247 of the Muradkhanli oilfield, as well as for additional general working capital.

- d) On October 24, 2019, the Company announced that:
- It had repaid the first tranche of the settlement of the USD\$1,485,000 loan that, on October 1, 2019, was successfully agreed to settle for a total amount of US\$1,000,000, representing a profit of US\$1,080,523.
 - It had successfully repaid the unsecured notes for £90,000, with related accrued interest.
 - It had received three Conversion Notices ("**Conversion**") from the consortium of lenders (the "Lenders") for the US\$1,500,000 Convertible Loan Facility ("**Convertible Loan**") announced on September 5, 2018. A total of 11,421,402 Conversion Shares, equivalent to a total amount of US\$340,000, were issued.
- e) On November 1, 2019, the Company announced the fully closing of the private placing on the Merkur Market of the Oslo Børs.

Following up on the Company's previous announcement of October 22, 2019, whereby the Company announced increased participation in its Norwegian private placement, the Company announces that it has successfully closed a further increased amount of 8,977,143 new common shares for additional gross proceeds of NOK 3,142,000 (approximately GBP 265,000.00 or CAD 447,000.00). The aggregate number of common shares issued as part of the private placement was 37,000,000 and private placement was completed at a subscription price of NOK 0,35 per share (3 Pence or CAD cents 5.02).

- f) On November 1, 2019, the Company announced that it had agreed to supplement an existing convertible loan agreement (the "**Loan Agreement**") it has with a consortium of lenders (the "**Lenders**") by increasing the maximum amount that may be loaned by the Lenders to the Company under the Loan Agreement by an additional USD\$1,000,000, from USD\$1,500,000 to USD\$2,500,000. The conversion terms under the Loan Agreement are the same provided in the original loan announced on September 5, 2018, and successfully renegotiated on March 11, 2019. The Loan Agreement provides for an initial immediate advance of USD\$500,000 and a further advance of USD\$500,000, to be provided at a later time.

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The total outstanding liability in relation to the convertible loan provided by the Lenders stands at USD\$920,000 following the supplement of the existing Loan Agreement.

- a) On November 1, 2019, On November 4, 2019, the Company announced it had formalized an offer to acquire a Norwegian oil & gas company, Nordic Petroleum AS ("**Nordic**"), by way of an exchange of equity.

The proposed acquisition is structured to be for a minimum of 90 percent of the outstanding shares in Nordic with a proposed equity exchange of 100 Nordic common shares for 1 Zenith common share ("**Proposed Terms**").

The amount of outstanding fully diluted shares in Nordic is 905,045,166 common shares (nine hundred five million forty-five thousand one hundred sixty-six). Zenith will issue up to 9,050,452 common shares of no-par value under the Proposed Terms.

The unaudited net value of Nordic's equity presently stands at NOK 8,800,000 (equivalent to approximately CAD\$1,270,000 or £750,000).

Nordic's Board of Directors has decided to recommend the Proposed Terms to its shareholders for approval provided certain conditions and practicalities in the Proposed Terms be resolved prior to the Formal Offer being submitted to shareholders.

Upon completion of the proposed acquisition of Nordic, Zenith intends to use Nordic as a vehicle to pursue the acquisition of mature energy production assets, as well as for potential participation in future licensing bids organized by the Norwegian Ministry of Petroleum and Energy.

The transaction further cements the Company's Norwegian presence in anticipation of attracting additional support from long-term Norwegian institutional investors.

- b) On November 6, 2019, the Company announced the approval of its Base Prospectus ("**Prospectus**") for the issuance of EUR 25,000,000 unsecured, multi-currency Euro Medium Term Notes at par value (the "**Notes**") on the Third Market (MTF) of the Vienna Stock Exchange ("**Wiener Borse AG**").

The Notes can be issued in tranches at Zenith's discretion up to an aggregate principal amount not to exceed the value of Euro 25,000,000 and in any currency agreed between Zenith and the relevant investor including EUR, CAD\$, GBP, USD, and CHF.

The current maximum aggregate principal amount of all Notes at any one time outstanding will not exceed Euro 25,000,000 (or its equivalent in other currencies), subject to an increase from time to time in accordance with applicable law.

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 issue of the Notes is aligned with the Company's strategy of diversifying its financing towards non-equity dilutive funding to support its successful development.

CEO STATEMENT

Zenith Energy Ltd. (“**Zenith**” or “the **Group**”) is an international oil and gas production Group, incorporated in Canada, listed on the TSX Venture Exchange under the ticker symbol “ZEE”, and 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 ticker “ZENA:ME” on November 8, 2018. The Merkur Market is a multilateral trading facility owned and operated by the Oslo Børs.

Zenith’s is defined by its focus on the acquisition and further development of proven onshore oil and gas fields. To maximize shareholder value, Zenith targets acquisitions of production opportunities that offer strong logistics and close proximity to refineries and pipelines. Zenith’s management and directors have extensive financial and government experience and possess the technical knowledge to execute this strategy.

The Group operates the largest onshore oilfield in Azerbaijan by cumulative acreage through its fully owned subsidiary, Zenith Aran Oil Company Limited, with independently assessed proven + probable (2P) reserves of 30.6 million barrels of oil. Zenith also operates, or has working interests in, a number of gas production and exploration concessions in Italy with independently assessed 2P reserves of 16.3 BCF. Zenith’s Italian operations also include the production of electricity and condensate.

Zenith’s strategy is to identify and rapidly seize opportunities in the onshore oil & gas sector. Specific attention is directed to fields formerly controlled by oil majors and state oil companies. These assets often have significant untapped potential and the capacity to produce sizeable volumes of oil & gas with investment in technology and new management.

The beginning of drilling activities in the Jafarli Field, where are deepening two existing wells, C-37 and C-30, is extremely exciting and represents a watershed moment for Zenith on an operational level. A positive result in C-37 drilling operations has enabled the Company to achieve ‘proof of concept’ and demonstrate that the significant work performed to date has all been part of a necessary learning curve prior to achieving success.

I am also extremely pleased regarding the successful first operational deployment of our 1,200hp drilling rig. This rig enables Zenith to execute its strategy, formulated following the completion of extensive technical, reservoir, and geological investigations, to materially increase its daily production of oil against a backdrop of strengthened oil prices and an undiminished primacy of hydrocarbons as an energy source.

The Group has updated the competent persons report (“**CPR**”) as at March 31, 2019, following the additional challenges faced and the management team’s improved understanding of the complex geology. The revised CPR formed part of the Directors impairment assessment of the Azeri asset as at March 31, 2019, following which no impairment has been recorded in the financial statements for the three months ended June 30, 2019.

I thank shareholders for their support. I am confident that we shall be able to deliver strong progress as we go forward and that this will be reflected in our next set of quarterly results.

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

Andrea Cattaneo
Chief Executive Officer & President
November 14, 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Continuing operations	Note	Six months ended	
		September 30, 2019 CAD\$'000	September 30, 2018 CAD\$'000
Revenue	25	2,669	4,124
Cost of sales			
Production costs		(2,236)	(1,763)
Depletion and depreciation	8	(913)	(786)
Gross (loss)/profit		(480)	1,575
Administrative expenses	5	(2,497)	(4,478)
Operating (loss) / profit		(2,977)	(2,903)
Finance income	6	1,004	-
Finance expense	6	-	(373)
Loss for the period before taxation		(1,973)	(3,276)
Taxation	7	-	(1)
Loss for the period		(1,973)	(3,277)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		(65)	(506)
Total comprehensive income for the period attributable to owners of the parent		(2,038)	(3,783)

Earnings per share	Note	Six months ended	
		30 September 2019 CAD\$	30 September 2018 CAD\$
Basic from loss for the period	20	(0.01)	(0.02)
Diluted from loss for the period		(0.01)	(0.01)
From continuing operations – basic		(0.01)	(0.02)
From continuing operations – diluted		(0.01)	(0.01)

The notes on pages 14 to 50 form part of the Financial Statements

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Six months ended	
		September 30, 2019	September 30, 2018
ASSETS	Note	CAD\$'000	CAD\$'000
Non-current assets			
Property, plant and equipment	8	1,080,311	1,075,622
Other financial assets	9	408	416
		<u>1,080,719</u>	<u>1,076,038</u>
Current assets			
Inventory	10	161	164
Trade and other receivables	11	3,839	3,230
Cash and cash equivalents		1,681	4,197
		<u>5,681</u>	<u>7,591</u>
TOTAL ASSETS		<u><u>1,086,400</u></u>	<u><u>1,083,629</u></u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	13	33,557	26,479
Share warrants & option reserve	14	1,142	1,655
Contributed surplus		4,125	3,629
Retained earnings		533,021	541,054
Total equity		<u>571,845</u>	<u>572,817</u>
Non-current liabilities			
Loans	16	2,299	947
Non-convertible bond and notes	17	4,759	-
Deferred consideration payable	18	482,839	482,963
Decommissioning provision	19	8,807	8,676
Deferred tax liabilities	7	2,398	2,398
Total non-current liabilities		<u>501,102</u>	<u>494,984</u>
Current Liabilities			
Trade and other payables	15	10,731	10,588
Loans	16	1,762	4,011
Non-convertible bond and notes	17	857	385
Deferred consideration payable	18	104	844
Total current liabilities		<u>13,454</u>	<u>15,828</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1,086,401</u></u>	<u><u>1,083,629</u></u>

Approved by the Board dated on November 14, 2019

Signed

Jose Ramon Lopez-Portillo Chairman

The notes on pages 14 to 50 form part of the Financial Statements

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Share capital	Share warrants & option reserve	Contributed surplus	Retained earnings	Total
	CAD\$'000	CAD\$'000	CAD\$'000	CAD\$'000	CAD\$'000
Balance as at April 1, 2018	22,792	875	3,390	544,837	571,894
Loss for the period	-	-	-	(3,277)	(3,277)
Other comprehensive income	-	-	-	(506)	(506)
Total comprehensive income	-	-	-	(3,783)	(3,783)
Share issue net of costs - private placement	3,687	-	-	-	3,687
Value of warrants issued	-	48	-	-	48
Issue of options	-	971	-	-	971
Fair value of options exercised	-	-	-	-	-
Warrants expired	-	(239)	239	-	-
Total transactions with owners recognized directly in equity	3,687	780	239	-	4,706
Balance as at September 30, 2018	26,479	1,655	3,629	541,054	572,817
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Share capital	Share warrants & option reserve	Contributed surplus	Retained earnings	Total
	CAD\$'000	CAD\$'000	CAD\$'000	CAD\$'000	CAD\$'000
Balance as at April 1, 2019	28,866	1,147	4,125	534,943	569,081
Loss for the period	-	-	-	(1,973)	(1,973)
Other comprehensive income	-	-	-	(65)	(65)
Total comprehensive income	-	-	-	(2,038)	(2,038)
Share issue net of costs – debt settlement	303	-	-	-	303
Share issue net of costs - private placement	4,230	-	-	-	4,230
Fair value of warrants issued	-	111	-	-	111
Options exercised	158	(116)	-	116	158
Warrants expired	-	-	-	-	-
Total transactions with owners recognized directly in equity	4,691	(5)	-	116	4,802
Balance as at September 30, 2019	33,557	1,142	4,125	533,021	571,845

Reserve	Description and purpose
Share capital	Amount subscribed for share capital
Share warrants & option reserve	Relates to increase in equity for services received – equity settled share transactions
Contributed surplus	Expired share options issued in previous years
Retained earnings	Cumulative net gains and losses recognized in the consolidated statement of comprehensive income.

The notes on pages 14 to 50 form part of the Financial Statements

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		Six months ended	
		September 30, 2019	September 30, 2018
OPERATING ACTIVITIES		CAD \$'000	CAD \$'000
	Note		
Loss for the period before taxation		(1,973)	(3,276)
Share options issued		111	1,019
Foreign exchange		(9,660)	(8,415)
Depletion and depreciation	8	913	786
Finance (income)/expense	6	(1,004)	373
Change in working capital	12	548	7,915
Net cash outflows from operating activities		(11,065)	(1,598)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(1,951)	(361)
Proceeds from disposal of property, plant and equipment	8	-	162
Net cash outflows from investing activities		(1,951)	(199)
FINANCING ACTIVITIES			
Proceeds from issue of shares, net of transaction costs		6,617	3,687
Proceeds from exercise of share options		333	-
Repayment of bonds		(385)	-
Issue of bonds		3,143	-
Proceeds from bonds in treasury		1,720	-
Repayments of loans	16	(2,382)	(124)
Proceeds from loans		1,453	38
Net cash flows from financing activities		10,500	3,601
Net (decrease)/increase in cash and cash equivalents		(2,516)	1,804
Cash and cash equivalents at beginning of period		4,197	2,393
Cash and cash equivalents at end of period		1,681	4,197

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Notes to the financial statements

1. Corporate and Group information

The consolidated financial statements of Zenith Energy Ltd. and its subsidiaries (collectively, the “**Group**”) have been prepared on the basis set out below. Zenith Energy Ltd are exempt from preparing separate parent company financial statements for the period ended 30 September 2019 in line with Canada Business Corporations Act.

Zenith Energy Ltd. (“**Zenith**” or the “**Group**”) was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007 and is domiciled in Canada. The address of the Group’s registered office is 20th Floor, 250 Howe Street, Vancouver, BC. V6C 3R8, Canada and its business address is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Group is primarily involved in the international development of energy production assets in Azerbaijan, where it operates the largest onshore oilfield in the country, and in Italy, where the Group has a well-balanced portfolio of production and exploration assets producing natural gas, natural gas condensate and electricity.

The Company's website is www.zenithenergy.ca.

Zenith is a public company listed on the TSX Venture Exchange under the ticker symbol, “**ZEE**”, on the Main Market of the London Stock Exchange under the ticker “**ZEN**”, and with its entire common share capital admitted to trading on the Merkur Market of the Oslo Børs under the ticker “**ZENA-ME**”.

2. Basis of preparation

The consolidated financial statements presented in this document have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

The financial statements have been prepared under the historical cost convention except for financial instruments which are measured at fair value through profit or loss. The financial statements are presented in Canadian Dollars (CAD\$) and have been rounded to the nearest thousand (CAD\$’000) except where otherwise indicated.

The Board has reviewed the accounting policies set out below, which have been applied consistently, and considers them to be the most appropriate to the Group’s business activities.

Presentation and functional currency

The presentation currency of the Group is the Canadian dollar (“**CAD\$**”).

Functional currency is the currency of the primary economic environment in which a company operates. The functional currency of the Group’s subsidiaries are; United States (“**US\$**”) dollars for the subsidiaries in Dubai and British Virgin Islands (including Azerbaijan operations), Euros (“**EUR**”) for the subsidiary in Italy, Sterling (“**GBP**”) for the subsidiary in the United Kingdom and Swiss Francs (“**CHF**”) for the subsidiary in Switzerland.

The functional currency is determined by the Directors by looking at a number of relevant factors including the currency in which Group entities usually generate and spend cash and in which business transactions are normally denominated.

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All the transactions that are not in the functional currency are treated as foreign and indicate currency transactions.

The factors that have determined the adoption of the CAD \$ as presentation currency include:

- mainly affects the prices at which the goods or services are consolidated;
- Canada is the country whose regulations, market conditions and competitive forces mainly affect the pricing policy of the entity;
- influences the costs and expenses of the entity;
- the funds are usually generated in that currency; and
- the receipts from operating activities are retained in that currency.

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.

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 six months ended September 30, 2019. 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.

New standards and interpretations

a. Adoption of new and revised standards

The following IFRSs or IFRIC interpretations are those that were effective for the first time for the financial year beginning April 1, 2018 and relevant to the entity:

Standard / Interpretation/Amendments	
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Clarifications to IFRS 15	Revenue from Contracts with Customers
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions

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IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to IFRSs: 2014-2016 Cycle	Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IAS 28 Investments in Associates

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

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

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Standard / Interpretation	impact on initial application	effective date
IFRS 9	Prepayment features with negative compensation	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatment	January 1, 2019
IFRS 3	Business combinations (amendment)	January 1, 2020
Annual Improvements to IFRSs: 2015-2017 Cycle	Amendments to: IFRS 3 Business combinations, IFRS 11 Joint Arrangements, IAS 12 Income taxes and IAS 23 Borrowing costs	January 1, 2019

The Directors do not expect that the adoption of the Standards listed above, in particular IFRS 16, will have a material impact on the financial statements of the Group in future periods.

3. Significant accounting policies

Consolidation

The following entities have been consolidated within the Group's financial statements:

<i>Name</i>	<i>Country of incorporation and place of business</i>	<i>Proportion of ownership interest</i>	<i>Principal activity</i>
Canoel Italia S.r.l. (1)	Genova, Italy	98.6%	Gas, electricity and condensate production
Ingenieria Petrolera del Rio de la Plata S.r.l.	Argentina	100%	Dormant
Zenith Aran Oil Company Limited	British Virgin Islands	100%	Oil production

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Aran Oil Operating Company Limited (2)	British Virgin Islands	80% owned subsidiary of Zenith Aran Oil Company Limited	Oil production
Altasol SA	Switzerland	100%	Oil trading
Zenith Energy (O&G) Ltd	United Kingdom	100%	Administrative services
Zena Drilling Limited (3)	Incorporated in UAE Place of business: Azerbaijan	100%	Oil and gas drilling

- (1) Zenith Energy Ltd. has 100% control over Canoe Italia S.r.l. The Group granted 1.4% to the Director managing the Italian subsidiary in order to limit the risk of any liability to that entity. Therefore, no non-controlling interest arises from the consolidation of this subsidiary.
- (2) The Directors of the Group have determined that the 20% interest of SOA in Aran Oil does not represent a non-controlling interest. This is a result of the structure of the REDPSA, whereby the financial entitlements of SOA are deemed to be legal obligations of the Group, and not a non-controlling interest in Aran Oil. The key factors considered in determining the appropriate treatment of SOA's 20% interest in Aran Oil included, but were not limited to:
- The allocation of voting rights and the ability of SOA to influence the decision-making process;
 - Legal obligations of each party under the REDPSA; and
 - Legal structure of Aran Oil as a vehicle for executing the terms of the REDPSA.
- (3) On November 28, 2018, the Company finalized 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.

Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Adjustments are made to the results of subsidiaries to bring the accounting policies used by them, with those used by the Group.

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

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The following entities have not been consolidated within the Group's financial statements because they are considered to be immaterial to the Group:

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

Property, plant and equipment

Development and production expenditures

Development and production ("D&P") assets include costs incurred in developing commercial reserves and bringing them into production. Items of property and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of D&P assets have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of D&P assets are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognized in profit or loss.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of property and equipment and work-overs of property and equipment are recognized only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognized in profit or loss when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of an item of property and equipment are recognized in profit or loss as incurred.

Depletion and depreciation

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, as determined by an independent reserve engineer, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Impairment

At the end of each reporting period, the Group reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into cash-generating units ("CGUs") for the purpose of impairment testing.

If any such indication of impairment exists, the Group makes an estimate of its recoverable amount. A CGUs recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

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Fair value less costs to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of D&P assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account.

These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognized as an expense in profit or loss.

At the end of each subsequent reporting period, these impairments are assessed for indicators of reversal.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods.

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

Decommissioning provision

The Group recognizes a decommissioning obligation in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning provision is recorded with a corresponding increase in the carrying amount of the related cost center.

Decommissioning provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the unwinding of discount and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the unwinding of discount is recognized as finance expenses. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Cash and cash equivalents

Cash and cash equivalents consist of cash deposits in bank accounts and cash in hand.

Inventory

Inventory consists of crude oil which is recorded at the lower of cost and net realizable value. The cost of producing crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the producing cost, including royalties. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any expected selling costs.

Financial instruments

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value

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of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost using the effective interest method:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Impairment of financial assets

The Group applies the expected credit loss model to financial assets measured at amortized cost or at fair value through other comprehensive income. There are no financial assets other than trade receivables.

De-recognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method.

Compound financial instruments

Compound financial instruments include convertible notes which can be converted into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognized as the fair value of the liability without the conversion feature, which is calculated using inputs that fall within level 1 of the fair value hierarchy of IFRS 13. The equity component is recognized as the difference between the fair value of the convertible debt and the fair value of the liability component.

Transaction costs are proportionately allocated between the components. Subsequently, the liability component is measured at amortized cost using the effective interest method and accretes up to the principal balance at maturity.

The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss is recognized. If the number of common shares to which the loan can be converted is not fixed, then the loan is recorded as a liability with no debt / equity split.

De-recognition of financial liabilities

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished when the obligation specified in the contract is discharged or cancelled or expires.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or

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originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost. For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

The Group's financial assets were classified as financial assets measured subsequently at amortized cost. The Group's financial liabilities were classified as financial liabilities measured subsequently at amortized cost. The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

Deferred consideration liability

Deferred consideration comprises capital commitments acquired as part of the Azerbaijan business combination transaction. These liabilities are measured at the net present value of contracted future cash flows. Details of the value and timing of future cash flows from the deferred consideration liability are included at note 18.

Share capital

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary or is redeemable but only at the Group's option. Dividends on share capital classified as equity are recognized as distributions within equity. Non-equity share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognized in the consolidated income statement as a financial expense.

Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

Share-based payments

The cost of providing share-based payments to employees is charged to the statement of comprehensive income (or treated as a share issue cost) over the vesting period of the related share options or share allocations. The cost is based on the fair values of the options, which is determined using the Black Scholes method. The values of the charge are adjusted to reflect expected and actual level of vesting. Charges are not adjusted for market related conditions that are not achieved. Where equity instruments are granted to persons other than Directors or employees the consolidated statement of comprehensive income is

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charged with the fair value of the related goods or services received.

Earnings per share

The Group presents basic and diluted earnings per share for its common shares. Basic earnings per share amounts are calculated by dividing the profit or loss attributable to common shareholders of the Group by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

Revenue from contracts with customers

The Group enters into contracts for the sale of oil and gas. Revenue is recognized when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards or ownership have been transferred to the customer and collection of the sales price is reasonably assured. The performance obligation is identified to be the delivery of oil and gas to the customer, and the transaction price is allocated to the amount of oil and gas delivered. These criteria for performance obligation are assessed to have occurred once the product has been delivered to the customer.

Foreign currency translation

Foreign currency transactions are translated into the respective functional currencies of the Group and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and,
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's exchange difference on translating foreign operations on the statement of comprehensive income and are reported as a separate component of shareholders' equity. These differences are recognized in profit or loss in the period in which the operation is disposed.

Finance expense

Finance expense is comprised of interest on debt, accretion of the decommissioning obligation, accretion of convertible notes and other miscellaneous interest charges.

Taxation

Income tax expense is comprised of current and deferred tax and is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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Deferred tax is recorded, using the asset and liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that enough future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions about the future. The relating accounting estimates will by definition, seldom equal to related achieved result. The estimates and judgements that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Going concern / minimum production required

The Directors have provided detail within note 2 to these financial statements which explain the Group's obligations and commitments under the REDPSA and the potential consequences of not meeting those obligations. The Directors have assessed that the Group will be able to meet the obligations within the required timeframe and have noted the challenges that they face in being able to do so. This is considered a critical accounting judgement due to the nature of uncertainty surrounding the factors which directly affect the Group's ability to meet the REDPSA obligations. as they are based upon using newly acquired assets.

Property, plant and equipment

Management reviews the Group's property, plant and equipment annually for impairment indicators.

The determination of recoverable amounts in any resulting impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to prices that are based on forward curves and long-term corporate assumptions thereafter, discount rates, that are risked to reflect conditions specific to individual assets, future costs, both capital and operating that are based on management's estimates having regard to past experience and the known characteristics of the individual assets, reserves and future production, which are discussed further on note 8. The carrying value of property, plant and equipment as at September 30, 2019 was CAD \$1,080,311k (2018 – CAD \$1,075,622k). It is also dependent on the Group being able to meet the CPR stated capital expenditure to ensure estimated cashflows are met and this is dependent on the availability of funding. It is also

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dependent on the Group being able to meet the production rate required by the REDPSA to ensure good title to the Azeri asset remains.

Proved and probable reserves and contingent resources

The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations. Contingent resources affect the valuation of exploration and exploration assets acquired in business combinations and the estimation of the recoverable value of those assets in impairment tests.

Proved and probable reserves and contingent resources are estimated using standard recognized evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated considering the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

The Group's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. The engineers issue a Competent Person's Report ("CPR") and the latest version was published on the Company's website (www.zenithenergy.ca) on June 28, 2019. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgement and interpretation.

Compensatory oil

The Group have a contractual obligation, to:

1. within one year following the Effective Date, deliver at no charge to SOCAR 5% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter; and
2. commencing on the first anniversary of the Effective Date, start delivering, at no charge to SOCAR, 15% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter, until the amount delivered is the equivalent of 45,000 tons of "compensatory" crude oil to SOCAR.

The amount, stated as a liability, reflect this part of production that has to be delivered to SOCAR, valued at the estimated production price of US\$20 per barrel. The production price per barrel has been estimated on historical basis, based on the production costs per barrel of the former ownership of the concession (SOCAR). The carrying value of the compensatory oil provision as at September 30, 2019 is CAD \$5,371k (2018 – CAD \$5,616k).

Decommissioning costs

Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations.

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the Statement of Financial Position date. Provision is made for the estimated cost at the Statement of Financial Position date, using a discounted cash flow methodology and a risk-free rate of return. Details of the Group's decommissioning costs are disclosed in note 19. The carrying value of the decommissioning costs as at September 30, 2019 is CAD \$8,807k (2018 – CAD \$8,676k).

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5. Administrative expenses

During the six months ended September 30, 2019, the Group incurred CAD\$ 2,269k (2018 - CAD\$ 4,478k) of Administrative Expenses, of which CAD\$345k (2018 - CAD\$1,443k) of non-recurring 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.

	Six months ended September 30,	
	2019	2018
	CAD\$'000	CAD\$'000
Auditors remuneration - audit fees Group	-	109
Accounting and bookkeeping	16	41
Legal	28	112
Other professional fees	289	483
Office	284	206
Administrative expenses	59	114
Foreign exchange (gain)/loss	275	23
Other administrative expenses	59	585
Salaries	988	874
Travel	154	488
General and administrative expenses	2,152	3,035
<u>Non-recurring expenses</u>		
Listing costs (Norway and UK)	182	360
Negotiation costs for acquisitions	50	64
Transaction Costs	2	-
Share based payments	111	1,019
Total non-recurring expenses	345	1,443
Total general and administrative expenses	2,497	4,478

6. Finance income/(expense)

	Six months ended September 30,	
	2019	2018
	CAD \$'000	CAD \$'000
Debt reduction on settlement of loan	643	-
Interest reduction on settlement of loan	733	-
Effective interest on financial liabilities held at amortised cost	(316)	(304)
Interest expense	(56)	(69)
Net finance income/(expense)	1,004	(373)

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7. Taxation

	Six months ended September 30,	
	2019	2018
	CAD \$'000	CAD \$'000
Current tax	-	1
Deferred tax	-	-
Total tax charge for the period	-	1

The tax (credit) / charge for the six months ended September 30, 2019 comprised CAD \$Nil (2018 – CAD\$ 934) of current tax expense and CAD \$Nil deferred tax reduction (2018 – CAD \$Nil deferred tax reduction).

As at September 30, 2019, the Group has accumulated non-capital losses in Canada totaling CAD\$638,484k (2018 - CAD \$632,171k) which expire in varying amounts between 2022 and 2039 and CAD \$795k (2018 – CAD \$400k) of non-capital losses with no expiry date.

8. Property, plant and equipment

	D&P Assets
	CAD \$'000
Carrying amount at April 1, 2018	1,077,445
Additions	361
Disposals	(162)
Depletion and depreciation	(786)
Compensatory oil delivered	(176)
Foreign exchange differences	(1,060)
Carrying amount at September 30, 2018	1,075,622
Carrying amount at April 1, 2019	1,079,639
Additions	1,951
Disposals	-
Depletion and depreciation	(913)
Compensatory oil delivered	(159)
Foreign exchange differences	(207)
Carrying amount at September 30, 2019	1,080,311

Property, plant and equipment have attached capital commitments represented by deferred consideration payable. The details of these capital commitments are included within the 'Capital costs' section of note 18.

Impairment test for property, plant and equipment

As at September 30, 2019 and 2018, 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 September 30, 2019 and 2018 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

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March 31, 2019 was higher than its carrying amount, therefore, no impairment was recognized in the six months ended September 30, 2019 (2018 – no impairment) in the consolidated statement of comprehensive income.

The estimated fair value less costs to sell of the Azerbaijan CGU was based on 10% (2018 – 10%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at March 31, 2018. The estimated recoverable amount of the Azerbaijan CGU as at March 31, 2019, was higher than the carrying amount, therefore, no impairment was recognized in the six months ended September 30, 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 0.3% increase in the discount rate would eliminate the headroom and therefore any increase in the discount rate above 0.3% would result in an impairment.

A decrease of more than 2.5% in the estimated fair value of the reserves in the Azerbaijan CGU would lead to the recognition on an impairment, whereas in the Italian CGU the decrease should be more than 23% for an impairment to be recognized. In addition, movements in other inputs to the calculation, such as the timing of future cashflows and commodity prices, also have a significant impact on the value of the underlying assets.

9. Non-current financial assets held at amortized cost

Upon the change of ownership of the assets acquired in Italy in the year 2016, the Group obtained an insurance policy for its Italian oil and gas operations. The policy has a five-year term for which the Group paid the total premium of EUR 567k (CAD \$868k), of which CAD \$nil (2018 – CAD \$nil) has been recognized as an expense. The outstanding balance of CAD \$408k (2018 - CAD \$416k) is included in long-term assets. During the year 2016 the Group received the news that the insurance company was in default. The Directors decided not to expense the monthly installment on the prepaid insurance, waiting for the reimbursement promised by the State of Romania, where the insurance company was based.

10. Inventory

As at September 30, 2019, inventory consists of CAD \$nil (2018 – CAD \$6k) of crude oil that has been produced but not yet sold, and CAD \$161k of materials (2018 – CAD \$153k). The amount of inventory recognized in the statement of comprehensive income is CAD \$8k (2018 - CAD \$13k).

	2019		2018	
	Barrels	CAD \$'000	Barrels	CAD \$'000
Azerbaijan	-	-	140	6
Azerbaijan – materials	-	155	-	153
Italy	-	6	-	5
	-	161	-	164

11. Trade and other receivables

	2019	2018
	CAD \$'000	CAD \$'000
Trade receivables	1,512	3,051
Bonds in treasury	1,721	-
Other receivables	606	179
Total trade and other receivables	3,839	3,230

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The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. The Group's customer base is of a similar bracket and share the same characteristics, as such these have been treated as one population. The Group's customers are all State customers, therefore, the lifetime expected losses are considered to be CAD\$ nil.

12. Change in working capital

	Six months ended September 30,	
	2019	2018
	CAD \$'000	CAD \$'000
Trade and other receivables	623	(424)
Inventory	(2)	(44)
Prepaid expenses	(14)	62
Prepaid property and equipment insurance	(8)	(14)
Trade and other payables	(1,147)	(7,495)
Total change in working capital	(548)	(7,915)

13. Share Capital

Zenith is authorized to issue an unlimited number of Common Shares, of which 107,695,043 were issued at no par value and fully paid during the six months ended September 30, 2019 (2018 – 55,295,519). All Common Shares have the right to vote and the right to receive dividends. Zenith is authorized 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 368,122,107 common shares in issue and admitted to trading on the Toronto Stock Exchange Venture Exchange and Merkur Market of the Oslo Børs, as of September 30, 2019.

As of the same date, Zenith had 265,982,454 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange.

Issued	Number of	Amount
Description	common shares	CAD \$'000
Balance – April 1, 2018	158,798,698	22,792
Settlement of debt (i)	1,123,068	185
Non-brokered unit private placement (ii)	54,172,451	3,694
Finder's fee	-	(187)
Balance – June 30, 2018	214,094,217	26,484
Finder's fee	-	(5)
Balance – September 30, 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

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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
Non-brokered unit private placement (vii)	20,000,000	1,000
Finder's fee	-	(40)
Non-brokered unit private placement (vii)	17,647,059	794
Finder's fee	-	(63)
Non-brokered unit private placement (viii)	14,334,602	702
Finder's fee	-	(42)
Balance – 30 June 2019	312,408,725	31,217
Exercise of stock option (ix)	622,407	75
Exercise of stock option (x)	688,797	83
Non-brokered unit private placement (xi)	47,812,500	1,913
Finder's fee (xi)	-	(34)
Settlement of debts (xii)	6,589,678	303
Balance – 30 September 2019	368,122,107	33,557

- 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**").

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Shares") at a subscription price of NOK0.35 per Placement Share (approximately £0.032 or CAD\$0.055).

- vi) On February 8, 2019 the Group 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 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).

- vii) On April 2, 2019, the Group 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 Group used the aggregate 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 Group ("**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).

The Company also paid related finder's fees for CAD\$40k.

UK Financing

Zenith issued a total of 17,647,059 Common Shares of no-par value in the capital of the Group 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). The Company also paid related finder's fees for CAD\$63k.

- viii) On May 3, 2019 the Group announced that it had completed a placing of new common shares of no-par value in the capital of the Group ("**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 also paid related finder's fees for CAD\$42k.

The Group 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

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C-37 drilling operations.

- ix) On July 3, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo exercised stock options to acquire 622,407 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.
- x) On July 4, 2019 the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options to acquire 688,797 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.
- xi) On August 2, 2019, the Company completed a placing in Canada issuing a total of 47,812,500 Common Shares, at a price of CAD\$0.04 per unit, consisting of one common share of no par value in the capital of the Company ("Common Shares") and one full common share purchase warrant ("Warrants"), exercisable within 12 months at an exercise price of CAD\$0.10, raising gross proceeds of CAD\$1,912,500 (approximately £1,195,000 or NOK 12,856,000). The Company paid finder's fees for CAD\$34k.
- xii) On September 17, 2019 the Company has agreed to issue 6,589,678 common shares at an average price of CAD\$0.05 per common share, to settle debts of CAD\$303k owed by the Company.

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14. Warrants and options

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD\$'000
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
Balance – June 30, 2019	11,100,000	19,796,378	0.12	1,147
Warrants issued	-	47,812,500	0.10	111
Options exercised	(1,311,204)	-	0.12	(116)
Balance – September 30, 2019	9,788,796	67,608,878	0.12	1,142

Options

Type	Grant Date	Number of options	Exercise price per unit CAD\$	Expiry Date
Stock options	November 2016	1,100,000	0.10	November 2021
Stock options	May 2017	1,000,000	0.15	May 2022
Stock options	November 2017	2,000,000	0.18	November 2022
Stock options	April 2018	10,500,000	0.18	April 2023
	TOTAL OPTIONS	14,600,000		
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	8,188,796	0.12	April 2023
	TOTAL OPTIONS	9,788,796		

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

As at September 30, 2019, the Group had 9,788,796 stock options outstanding (relating to 9,788,796 shares) and exercisable at a weighted average exercise price shown on the table above per share with a weighted average life remaining of 3.23 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.

Exercise of options

- On July 3, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options to acquire 622,407 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.
- On July 4, 2019 the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, exercised stock options and acquire 688,797 common shares of no-par value in the capital of the Company, at an exercise price of CAD\$0.12 per New Share.

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.

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Warrants

Type	Grant Date	Number of Warrants	Exercise price CAD\$	Expiry Date
Warrants	November-15	4,214,125	0.25	November-18
Warrants	November-16	732,920	0.20	November-18
Warrants	January-17	1,114,286	0.11	January-19
Warrants	January-17	9,000,000	0.24	January-19
Warrants	January-18	180,000	0.16	January-20
Warrants	June-18	1,280,000	0.07	June-21
Warrants	Sept-18	6,977,988	0.05	February-20
<u>TOTAL WARRANTS</u>		<u>23,499,319</u>		
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	0.10	February-20
Warrants	February-19	10,364,640	0.10	February-20
Warrants	February 19	900,000	0.10	February 20
Warrants	August 19	47,812,500	0.10	August 20
<u>TOTAL WARRANTS</u>		<u>67,608,878</u>		

As at September 30, 2019, the Group had 67,608,878 warrants outstanding (relating to 67,608,878 shares) and exercisable at a weighted average exercise price of CAD\$0.12 per share with a weighted average life remaining of 1 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

15. Trade and other payables

	2019 CAD \$'000	2018 CAD \$'000
Trade payables	10,174	7,361
Other payables	557	2,473
Accrued interest	-	754
Total trade and other payables	10,731	10,588

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16. Loans

	Six months ended September 30	
	2019	2018
	CAD\$'000	CAD\$'000
Loan payable - current	1,762	4,011
Loan payable – non-current	2,299	947
Total	4,061	4,958

The movement on the loans was as follows:

	Six months ended September 30	
	2019	2018
	CAD \$'000	CAD \$'000
Loans – current		
As at 1 April	3,776	237
Loan receipt	-	38
Transfer from non-current	1,246	3,929
Repayments	(2,298)	-
Debt reduction on settlement of loan	(643)	-
Interest	7	(124)
Foreign exchange	(326)	(69)
As at September 30	1,762	4,011

	Six months ended September 30	
	2019	2018
	CAD \$'000	CAD \$'000
Loans – non current		
As at 1 April	3,417	4,949
Loan receipt	177	-
Transfer to current	(1,246)	(3,929)
Foreign exchange	(49)	(73)
As at September 30	2,299	947

a) USD loan payable

On October 1, 2019, 2019, the Company announced that, on September 30, 2019, it had successfully agreed to settle the USD loan for a total amount of US\$1,000k, representing a reduction of US\$1,081k.

The Chief Executive Officer and President of the Group had provided a personal guarantee to the lender in respect of the repayment of the USD Loan by the Group and the final payment of approximately USD\$1,485k.

The full amount of the principal, and related accrued interest, of the Loan Facility was represented and accounted as a liability in the audited Annual Financial Report of the Company as of March 31, 2019, for a total amount of US\$2,081k.

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As at September 30, 2019, CAD\$1,301k (September 30, 2018 – CAD\$1,946k classified as non-current liability) of principal is classified as current liability and CAD\$nil (September 30, 2018 – CAD\$634k) of accrued interest is included in trades and other payables.

On October 24, 2019, the Company announced that it had repaid the first tranche of the settlement of this liability.

b) Euro bank debt

On August 6, 2015, the Group obtained a €220k loan (CAD\$349k) from the GBM Banca of Rome. The loan is unsecured, bears fixed interest at 7% per annum and is repayable in 60 monthly payments of principal and interest until August 6, 2020.

As at September 30, 2019 the principal balance of the loan was €84k (CAD\$121k) which was classified as a current liability.

c) USD \$320,000 General line of credit agreement

On April 5, 2017, the Group's wholly owned subsidiary, Zenith Aran Oil Company Limited, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("**Rabitabank**") up to an amount of US\$320k (CAD\$436k), for industrial and production purposes. The loan was, as at April 6, 2017, fully drawn down. Rabitabank can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% production levels as they were at the date of first drawdown, or if the REDPSA is terminated.

This Credit Agreement bears interest at a rate of 11% per annum. The loan is guaranteed by the Group. The loan was granted for one-year period. The 25% of the principal amount should be paid on quarterly basis. The amount of interest to be paid on monthly basis.

On July 6, 2017, the terms of the repayment of the US\$320k (CAD\$436k) credit agreement were amended and the first repayment of the principal of US\$80k was postponed to the end of July.

On July 31, 2017 US\$20k (CAD\$21k) was repaid and the balance of US\$60k (CAD\$63k) was agreed to be repaid on September 1, 2017. On July 31, 2018, US\$40k (CAD\$52k) was repaid. A subsequent credit committee decision taken in September 2017 amended the payment terms of the loan. Zenith Aran Oil Company Limited will pay interest on a monthly basis and the principal total amount of US\$40k has been paid on September 30, 2018. The balance of the principal amount will be repaid at a new maturity date of April 6, 2019. Based on credit committee decision taken on April 18, 2019 the principal amount of US\$280K was rolled over for one year.

The loan is now guaranteed by the guarantee of the Group CEO, Mr. Andrea Cattaneo.

As of September 30, 2019, the outstanding principal amount was US\$286k (CAD\$379k) (September 30, 2018 - US\$240k (CAD\$310k)) and it was classified as a non-current liability.

d) USD \$200,000 General line of credit agreement

On April 12, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to US\$200k (CAD\$272k). This Credit Agreement bears interest at a rate of 10% per annum. The loan was granted for one-year period and the principal amount of the loan was payable at the end of the period.

The amount of interest is repayable monthly. In March 2018, the repayment of the principal amount (US\$200k) was extended for 15 months until July 12, 2019 and then the credit committee made the

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decision to roll-over the loan for another year with maturity date on July 12, 2020. The interest is payable on a monthly basis and the principal amount will be paid as a whole on the maturity date.

The loan is now guaranteed by the Group Chief Executive Officer, Mr. Andrea Cattaneo.

As of September 30, 2019, the amount of US\$181k (CAD\$239k) (September 30, 2018 - US\$200k (CAD\$230k)) was classified as a current liability.

e) Non-Convertible loan USD 1,500,000

On September 5, 2018, the Company entered into a US\$1,500,000 unsecured convertible loan facility with a term of 18 months starting from August 30, 2018. Zenith shall pay interest on the outstanding amount of the convertible loans 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 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 convertible loans. On January 7, 2019, the Company successfully renegotiated the terms of this unsecured Convertible Loan Facility, that now is repaid in monthly instalments, becoming a non-convertible facility.

As of September 30, 2019, the total outstanding liability in relation to the convertible loan provided by the Lenders stands at USD\$695k (CAD\$915k).

On November 1, 2019, the Company announced that it has agreed to supplement an existing convertible loan agreement (the "**Loan Agreement**") it has with a consortium of lenders (the "**Lenders**") by increasing the maximum amount that may be loaned by the Lenders to the Company under the Loan Agreement by an additional USD\$1,000,000, from USD\$1,500,000 to USD\$2,500,000. The conversion terms under the Loan Agreement are the same provided in the original loan announced on September 5, 2018, and successfully renegotiated on March 11, 2019. The Loan Agreement provides for an initial immediate advance of USD\$500,000 and a further advance of USD\$500,000, to be provided at a later time.

f) Convertible loan GBP 1,000,000

On January 7, 2019, the Company entered into a new unsecured convertible loan facility for an aggregate total amount of up to £1 million with a consortium of 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 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.

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17. Non-convertible bond and notes

Non-convertible bond and notes	September 30, 2019 CAD \$'000	September 30, 2018 CAD \$'000
Current	104	385
Non-current	4,759	-
Total	4,863	385

Non-convertible bond and notes	CAD \$'000
Balance – April 1, 2018	407
Foreign currency translation	(22)
Balance – September 30, 2018	385
Balance – April 1, 2019	4,958
Interest	63
Repayment of bonds	(158)
Balance – September 30, 2019	4,863

(a) Mini Notes

On March 25, 2019 the Group announced that it issued unsecured notes (the "Notes") for a total amount of £90k (CAD\$153k) 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 formalization of the process was subject to approval by the TSX Venture Exchange.

At the six months ended September 30, 2019, CAD\$ 104k is classified as a current liability and CAD\$ nil is classified as long-term.

On October 24, 2019, the Company announced that It had successfully repaid the unsecured notes for £90,000, with related accrued interest.

(b) EMTN

During the year the Group, as announced in September 2018 and January 2019, issued European Medium-Term Notes to finance its development activities in Azerbaijan for a total amount of CAD\$4,759k, with the duration of 3 years. The maturity date of the Notes is December 20, 2021, and they carry an interest charge of 8% per annum, payable semiannually on December 20, 2019, and then every six months thereafter.

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At the six months ended September 30, 2019, CAD\$ nil is classified as a current liability and CAD\$4,759 is classified as long-term.

18. Deferred consideration payable

Deferred consideration comprises capital commitments acquired as part of the Azerbaijan business combination transaction. These liabilities are measured at the net present value of contracted future cash flows, as follows:

Compensatory oil

The Company has an obligation, under the terms of the REDPSA, to:

1. within one year following the Effective Date, deliver at no charge to SOCAR 5% of the total production of petroleum produced from the REDPSA area in each calendar quarter; and
2. commencing on the first anniversary of the Effective Date, start delivering, at no charge to SOCAR, 15% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter, until the amount delivered is the equivalent of 45,000 tons of “compensatory” crude oil to SOCAR.

The amount, stated as a liability, reflects this production obligation that has to be delivered to SOCAR, valued at the estimated production price of US\$20 per barrel.

Capital Costs

Total capital expenditures of USD\$749m (USD\$599m net to the Company) have been estimated to redevelop the oil fields in the block. During 2019 and 2020, it is estimated that US\$ 3.5m will be spent upgrading the gathering system and central facilities in Azerbaijan to improve safety, efficiency and handle higher production rates.

From 2020 through 2024, 3D seismic programmes are expected to be performed in order to fully delineate the various pools and target formations to optimize the selection of drilling locations.

Development drilling will commence in 2019 and continue to 2035. It has been estimated that each well in the proved case will cost USD\$4.3m. This cost will include the direct cost of materials, fuel, salaries, etc. to drill the well as well as an allocation for the purchase of one drilling rig, well completion and tie in. Each well in the proved plus probable case is expected to cost USD\$5m. In addition to the costs anticipated for the proved wells, wells in proved plus probable category have an additional allocation of the periodic leasing or contracting of additional drilling rigs and expansion and modernization of the field facilities.

In all, 147 wells are expected to be drilled, 58 of these are anticipated to be horizontal wells. Most horizontal wells will have two legs of about 1,600 m each. For the purpose of estimating costs, each leg is considered to be a well with a cost of USD\$5m.

Under the terms of the REDPSA, the Company and SOCAR shall, within 12 months of the effective date, agree to a mechanism of making contributions to an abandonment fund which shall not exceed 15% of all capital costs. Contributions to the abandonment fund can be recovered as operating costs.

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DEFERRED CONSIDERATION PAYABLE	September 30, 2019	September 30, 2018
	CAD\$'000	CAD\$'000
Compensatory Oil		
Current portion	159	253
Non-Current portion	5,272	5,344
Capital costs		
Current portion	698	422
Non-Current portion	477,567	477,788
As of 30 September	483,696	483,807
Deferred consideration payable current	857	844
Deferred consideration payable non-current	482,839	482,963
Total	483,696	483,807

The deferred consideration liability has been measured at the present value of contracted future cash flows. The value and timing of contracted future cash flows has been included in note 22 (b).

19. Decommissioning provision

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

	2019	2018
	CAD \$'000	CAD \$'000
Balance – beginning of period	9,089	9,140
Accretion	(31)	(37)
Foreign currency translation	(251)	(427)
Balance – end of period	8,807	8,676

The provision has been made by estimating the decommissioning cost at current prices using existing technology. The following significant weighted average assumptions were used to estimate the decommissioning obligation:

	2019	2018
Undiscounted cash flows – uninflated	CAD \$8 million	CAD \$8 million
Undiscounted cash flows - inflated	CAD \$8 million	CAD \$8 million
Risk free rate	3.4%	3.4%
Inflation rate	1.4%	1.4%
Expected timing of cash flows	13.5 years	14.5 years

The timings of the cash flows depend on the capital expenditure incurred and the development of assets in each concession. Each concession has a license for a set number of years; however, the licenses could be extended for longer periods if the operator incurs capital expenditure and develops the area. The application process starts after a license is not extended or when the reserves of a particular concession have been fully extracted.

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20. Earnings per share

	September 30, 2019, CAD\$'000	September 30, 2018, CAD\$'000
Net loss	(1,973)	(3,276)
Basic weighted average number of shares	296,866	194,232
Potential dilutive effect on shares issuable under warrants	77,398	38,099
Potential diluted weighted average number of shares	374,264	232,331
Net (loss)/profit per share – basic (1)\$	(0.01) \$	(0.02)
Net earnings per share – diluted	(0.01)	(0.01)

⁽¹⁾ The Group did not have any in-the-money convertible notes, warrants and stock options during the six months ended September 30, 2019 and 2018. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

The basic and diluted loss per share for 2019 are the same as there are no dilutive effects on earnings as the effect of the exercise of share options would be to decrease the earnings per share. Details of share warrants and options that could potentially dilute earnings per share in future years are set out in Note 14.

21. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. The related party transactions during the six months ended September 30, 2019 and 2018 not disclosed elsewhere in these consolidated financial statements are as follows:

- a) On April 12, 2019, Mr. Cattaneo acquired a total of 450,000 common shares of no-par value in the capital of the Company, at a total average price of £0.0305 per Common Share.
- b) On April 25, 2019, Mr. Cattaneo acquired a total of 593,289 common shares of no-par value in the capital of the Company, at an average price of NOK 0.37 (approximately £0.033) per Common Share on April 18, 2019 on the Oslo Børs.
- c) On May 3, 2019, Mr. Cattaneo acquired a total of 650,000 common shares of no-par value in the capital of the Company, at an average price of GBP 0.03055 (approximately CAD\$0.05) per Common Share.
- d) On May 14, 2019, Mr. Cattaneo acquired a total of 1,005,000 common shares of no-par value in the capital of the Company, at a total average price of £0.030 per Common Share (approximately CAD\$0.054).
- e) On May 15, 2019, Mr. Andrea Cattaneo, granted a call option on May 13, 2019 over 1,000,000 common shares of no-par value in the capital of the Company, owned by himself, at an exercise price of CAD\$0.10 per Common Share (approximately £0.057) that can be exercised between July 1, 2019 and April 4, 2020.
- f) On May 29, 2019, Mr. Cattaneo acquired a total of 200,000 common shares of no-par value in the capital of the Company, at an average price of £0.02925 per Common Share, and transferred 1,500,000 common shares to a family member.
- g) On August 6, 2019, the Chief Executive Officer & President of The Company, Mr. Andrea Cattaneo,

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has advised the Company that he purchased 700,000 common shares of no par value in the capital of the Company at an average price of GBP 0.02471 per Common Share on the London Stock Exchange, and 7,187,632 common shares of no par value in the capital of the Company at an average price of CAD\$0.04 per Common Share on the TSX, he subscribed 7,500,000 new common shares in the capital of Zenith at a price of CAD 0.04 per common share during the Company's last Canadian Placing, he transferred 1,000,000 Common Shares on August 0, 2019 to a family member (who is not a PCA) and he sold a total of 7,187,632 common shares of no par value in the capital of the Company at a price of £0.025 per Common Share.

- h) On August 9, 2019, the Chief Executive Officer & President of the Company, Mr. Andrea Cattaneo, has advised that he purchased a total of 475,000 common shares of no par value in the capital of the Company at an average price of £0.0255 per Common Share on the London Stock Exchange, he purchased 325,000 Common Shares at an average price of £0.0249 per Common Share, he purchased 150,000 Common Shares at a price of £0.0267 per Common Share, he purchased 8,512,368 Common Shares at an average price of CAD\$0.04 per Common Share on the TSX Venture Exchange and he sold a total of 8,512,368 Common Shares at an average price of £0.0250 per Common Share on the London Stock Exchange.
- i) As of September 30, 2019, Following the aforementioned dealings, Mr. Cattaneo was directly beneficially interested in a total of 26,834,115 Common Shares in the capital of the Company, representing 7.42 per cent of the total issued and outstanding common share capital of the Company admitted to trading on the TSX Venture Exchange and Merkur Market of the Oslo Børs, at that date.
- j) Mr. Cattaneo is also indirectly interested in a total of 480,000 Common Shares, today representing 0.13 per cent of the Company's issued and outstanding common share capital admitted to trading on the TSX Venture Exchange and Merkur Market of the Oslo Børs, at that date.
- j) General Transactions Inc., represented by its Chief Executive Officer and Chairman Mr. Sergey Borovskiy, a Non-Executive Director of the Company, granted Zenith a loan of CAD\$ Nil (2018 - CAD\$127,878). The maturity date of the loan, plus accrued interest at the yearly rate of 15%, is March 31, 2020. The balance outstanding at September 30, 2019 is CAD\$127,878 (2018 - CAD\$127,878).
- k) Mr. Erik Larre, a Non-Executive Director of the Company, granted Zenith a loan of CAD\$ Nil (2018 - Euro 20,000 (CAD\$31,598)). The principal is repayable upon request and accrued no interest. The balance outstanding at September 30, 2019 is CAD\$31,598 (2018 - CAD\$31,598).

22. Financial risk management and financial instruments

	September 30, 2019	September 30, 2018
	CAD \$'000	CAD \$'000
Financial assets		
Financial assets held at amortized cost	3,839	3,230
Cash and cash equivalents	1,681	4,197
Total financial assets	5,520	7,427

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	September 30, 2019	September 30, 2018
	CAD \$'000	CAD \$'000
Financial liabilities at amortized cost		
Trade and other payables	10,731	10,588
Loans	4,061	4,958
Non-convertible bond and notes	4,863	385
Deferred consideration	483,696	483,807
Total financial liabilities	503,351	499,738

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 six months ended September 30, 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 of cash of CAD\$ 1,681k (2018 – CAD\$4,197k) and trade and other receivables of CAD\$3,839k (2018 – CAD\$3,230k).

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 summarized in the following table:

	September 30, 2019	September 30, 2018
	CAD\$'000	CAD\$'000
Oil and natural gas sales	1,512	2,686
Goods and services	-	365
Other	2,327	179
	3,839	3,230

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

The Group considers its receivables to be aged as follows:

	September 30, 2019 CAD \$'000	September 30, 2018 CAD \$'000
Current	3,839	2,865
90 + days	-	365
	3,839	3,230

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 enough liquidity to meet its liabilities when due, under both normal and distressed conditions without incurring unacceptable losses or risking harm to the Group's reputation.

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

As of September 30, 2019, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying Amount CAD \$'000	Contractual cash flow CAD \$'000	Due on or before September 30, 2020 CAD \$'000	Due on or before September 30, 2021 CAD \$'000	Due after September 30, 2021 CAD \$'000
Trade and other payables	10,731	10,731	10,731	-	-
Loans	4,061	4,352	3,248	1,104	-
Non-convertible bond	4,863	5,420	363	5,002	55
Deferred consideration	483,696	1,143,382	45,421	65,661	1,032,300
	503,351	1,163,885	59,763	71,767	1,032,355

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	1.3240	1.2895	1.3200	1.2986
Euro	1.4453	1.4961	1.4674	1.5285
Swiss Franc	1.3306	1.3132	1.3391	1.3186
British Pound	1.6282	1.6796	1.6269	1.7286

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The following represents the estimated impact on net (loss)/income of a 10% change in the closing rates as at September 30, 2019 and 2018 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

	September 30, 2019 CAD \$'000	September 30, 2018 CAD \$'000
US dollars	62	54
Euro	12	22
Swiss Franc	-	225
	74	301

d) Commodity price risk

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

As at September 30, 2019, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the six months ended September 30, 2019 of approximately CAD \$2k (2018 – CAD \$3k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the six months ended September 30, 2019 of approximately CAD \$15k (2018 – CAD \$32k).

As at September 30, 2019, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net loss for the six months ended September 30, 2019 of approximately \$116k (2018 – \$187k).

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.

23. Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to explore and develop its projects to provide returns for shareholders and benefits for other stakeholders. The Group manages its working capital deficiency, long-term debt, and shareholders' equity as capital.

	September 30, 2019 CAD \$'000	September 30, 2018 CAD \$'000
Working deficiency	(7,772)	(8,237)
Long-term debt	2,229	947
Shareholders' equity	571,845	572,817

The Group's cash flows from its Azerbaijan and Italian operations will be needed in the near term to finance the operations and repay vendor loans. Zenith's principal source of funds will therefore remain the issuance of equity, and the issuance of Bonds. The Group's ability to raise future capital through equity is subject to uncertainty and the inability to raise such capital may have an adverse impact on the Group's ability to continue as a going concern.

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

24. Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	September 30, 2019 CAD \$'000	September 30, 2018 CAD \$'000
Cash and cash equivalents	1,681	4,197
Loans – repayable within one year	(1,762)	(4,011)
Loans – repayable after one year	(2,299)	(947)
Non-convertible bond – repayable within one year	(104)	(385)
Non-convertible bond – repayable after one year	(4,759)	-
	<u>(7,243)</u>	<u>(1,146)</u>

	Cash	Loans due within one year	Loans due after one year	Non-convertible bond due within one year	Non-convertible bond due after one year	Total
Net debt	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000
September 30, 2017	2,393	(2,840)	(2,380)	(385)	-	(3,212)
Issue of new loans/Accretion	116	(116)	-	-	-	-
Repayment of loans/conversion	(378)	245	133	-	-	-
Transfer from current to non-current	-	(1,300)	1,300	-	-	-
Net cash flow	2,066					2,066
September 30, 2018	4,197	(4,011)	(947)	(385)	-	(1,146)

	Cash	Loans due within one year	Loans due after one year	Non-convertible bond due within one year	Non-convertible bond due after one year	Total
Net debt	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000
September 30, 2018	4,197	(4,011)	(947)	(385)	-	(1,146)
Issue of non-convertibles bonds	3,080	-	-	(41)	(3,039)	-
Interest on non-convertible bonds	-	-	-	(63)	-	(63)
Bonds in treasury	-	-	-	-	(1,720)	(1,720)

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Repayment of non-convertible bonds	(385)	-	-	385	-	-
Transfer from current to non-current	-	815	(815)	-	-	-
Repayment of loans	(897)	897	-	-	-	-
Net cash flow	(4,314)	-	-	-	-	(4,314)
September 30, 2019	1,681	(2,299)	(1,762)	(104)	(4,759)	(7,243)

25. Operating segments

The Group's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Group's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Board of the Directors.

The Group has four reportable segments which are as follows:

- Italy, which commenced gas operations following the acquisition of assets in June 2013;
- Azerbaijan, which was acquired during the 2017 financial year; and,
- Other, which includes corporate assets and the operations in the Canadian, Swiss and Dubai entities.

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

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PERIOD 2019	Azerbaijan CAD \$000	Italy CAD \$000	Other CAD \$000	Total CAD \$000
Property and equipment	1,065,259	8,101	6,951	1,080,311
Other assets	1,139	1,072	3,879	6,090
Total liabilities	492,575	8,187	13,794	514,556
Capital Expenditures	1,014	60	877	1,951
Revenue	2,325	344	-	2,669
Operating and transportation	(1,078)	(182)	(976)	(2,236)
General and Administrative	(508)	(122)	(1,867)	(2,497)
Depletion and depreciation	(710)	(38)	(165)	(913)
Finance and other expenses	(34)	(4)	1,042	1,004
Segment loss	(5)	(2)	(1,966)	(1,973)

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

		2019 CAD \$000	2018 CAD \$000
Customer A		2,325	3,738
Customer B		305	386

26. Controlling party

At as of September 30, 2019, the Directors do not consider there to be a controlling party.

27. Events subsequent to the quarter end

- a) On October 9, 2019, the Company provided an update on drilling results at well C-37 in the Jafari oilfield, confirming that continued flow testing of the well recorded had recorded an increased production rate.

The Company announced that further stimulation of the well, which may include swabbing operations as well as the performance of nitrogen stimulation, may increase the rate of production. The Company will update the market in due course regarding these operations.

- b) On October 10, 2019, the Company announced that ARC Ratings, SA. ("**ARC Ratings**") had confirmed its final public "B+" issuer medium and long-term credit rating, with Positive outlook, assigned to the Company.
- c) On October 22, 2019, the Company announced closing of the Private Placement in the Merkur Market of the Oslo Stock Exchange first announced to the market on October 21, 2019.

The Company announced that it had successfully raised gross proceeds of 9,808,000 (approximately GBP 824,000 or CAD\$1,403,000) to subscribe for 28,022,857 common shares of no-par value in the capital of the Company ("**New Common Shares**") at a price of NOK 0.35 per New Common Share (approximately £0.03 or CAD\$0.05).

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Zenith intends to use the net proceeds of the Private Placement to finance the purchase of long lead items and the beginning of civil works required in preparation for planned drilling operations at well M-247 of the Muradkhanli oilfield, as well as for additional general working capital.

- d) On October 24, 2019, the Company announced that:
- It had repaid the first tranche of the settlement of the USD\$ 1,485,000 loan that, on October 1, 2019, was successfully agreed to settle for a total amount of US\$1,000,000, representing a profit of US\$1,080,523.
 - It had successfully repaid the unsecured notes for £90,000, with related accrued interest.
 - It had received three Conversion Notices ("**Conversion**") from the consortium of lenders (the "Lenders") for the US\$1,500,000 Convertible Loan Facility ("**Convertible Loan**") announced on September 5, 2018. A total of 11,421,402 Conversion Shares, equivalent to a total amount of US\$340,000, were issued.

- e) On November 1, 2019, the Company announced the final completion of the private placing on the Merkur Market of the Oslo Børs.

Following up on the Company's previous announcement of October 22, 2019, whereby the Company announced increased participation in its Norwegian private placement, the Company subsequently announced that it has successfully closed a further increased amount of 8,977,143 new common shares for additional gross proceeds of NOK 3,142,000 (approximately GBP 265,000.00 or CAD 447,000.00). The aggregate number of common shares issued as part of the private placement was 37,000,000 and the private placement was completed at a subscription price of NOK 0.35 per share (approximately £0.03 or CAD\$0.0502).

- f) On November 1, 2019, the Company announced that it had agreed to supplement an existing convertible loan agreement (the "**Loan Agreement**") it has with a consortium of lenders (the "**Lenders**") by increasing the maximum amount that may be loaned by the Lenders to the Company under the Loan Agreement by an additional USD\$1,000,000, from USD\$1,500,000 to USD\$2,500,000. The conversion terms under the Loan Agreement are the same provided in the original loan announced on September 5, 2018, and successfully renegotiated on March 11, 2019. The Loan Agreement provides for an initial immediate advance of USD\$500,000 and a further advance of USD\$500,000, to be provided at a later time.

The total outstanding liability in relation to the convertible loan provided by the Lenders stands at USD\$920,000 following the supplement of the existing Loan Agreement.

- g) On November 1, 2019, On November 4, 2019, the Company announced it had formalized an offer to acquire a Norwegian oil & gas company, Nordic Petroleum AS ("**Nordic**"), by way of an exchange of equity.

The proposed acquisition is structured to be for a minimum of 90 percent of the outstanding shares in Nordic with a proposed equity exchange of 100 Nordic common shares for 1 Zenith common share ("**Proposed Terms**").

The amount of outstanding fully diluted shares in Nordic is 905,045,166 common shares (nine hundred five million forty-five thousand one hundred sixty-six). Zenith will issue up to 9,050,452 common shares of no-par value under the Proposed Terms.

The unaudited net value of Nordic's equity presently stands at NOK 8,800,000 (equivalent to approximately CAD\$1,270,000 or £750,000).

Nordic's Board of Directors has decided to recommend the Proposed Terms to its shareholders for approval provided certain conditions and practicalities in the Proposed Terms be resolved prior to the

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Formal Offer being submitted to shareholders.

Upon completion of the proposed acquisition of Nordic, Zenith intends to use Nordic as a vehicle to pursue the acquisition of mature energy production assets, as well as for potential participation in future licensing bids organised by the Norwegian Ministry of Petroleum and Energy.

The transaction further cements the Company's Norwegian presence in anticipation of attracting additional support from long-term Norwegian institutional investors.

- h) On November 6, 2019, the Company announced the approval of its Base Prospectus ("**Prospectus**") for the issuance of EUR 25,000,000 unsecured, multi-currency Euro Medium Term Notes at par value (the "**Notes**") on the Third Market (MTF) of the Vienna Stock Exchange ("**Wiener Borse AG**").

The Notes can be issued in tranches at Zenith's discretion up to an aggregate principal amount not to exceed the value of Euro 25,000,000 and in any currency agreed between Zenith and the relevant investor including EUR, CAD\$, GBP, USD, and CHF.

The current maximum aggregate principal amount of all Notes at any one time outstanding will not exceed Euro 25,000,000 (or its equivalent in other currencies), subject to an increase from time to time in accordance with applicable law.

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 issue of the Notes is aligned with the Company's strategy of diversifying its financing towards non-equity dilutive funding to support its successful development.