

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Condensed Interim Consolidated Financial Statements

September 30, 2014

(unaudited)

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 September 30, 2014 unaudited condensed interim consolidated financial statements.

Managements' Responsibility

To the Shareholders of Zenith Energy Ltd.:

The accompanying September 30, 2014 unaudited condensed interim consolidated financial statements of Zenith Energy Ltd. (the "Company") have been prepared by and are the responsibility of the management of the Company and are approved by the board of directors of the Company. The unaudited condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards and reflect management's best estimates and judgments based on currently available information.

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

(Signed)"Luigi Regis Milano"
Chief Financial Officer

November 30, 2014

Calgary, Alberta

Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(Expressed in Canadian dollars)

		September 30	March 31
	Note	2014	2014
		\$	\$
ASSETS			
Current assets			
Cash		926,525	711,248
Marketable securities	4	79,714	378,460
Trade and other receivables	18	1,081,247	1,215,913
Inventory		40,661	48,397
Prepaid expenses		318,718	251,714
		2,446,865	2,605,732
Non-current assets			
Property and equipment	5	21,200,703	20,937,438
Prepaid property and equipment insurance		431,974	549,497
Total assets		24,079,542	24,092,667
LIABILITIES			
Current liabilities			
Trade and other payables	18	2,274,271	2,474,178
Oil share agreement		887,214	875,727
Note payable	6	228,017	374,068
Loan payable	7	574,410	1,888,221
Convertible notes	8	482,672	1,265,789
Derivative liability	8	70,685	1,101
		4,517,269	6,879,084
Non-current liabilities			
Loan payable	7	1,723,230	377,644
Decommissioning obligation	9	14,104,498	13,392,936
Deferred taxes		1,206,633	1,206,633
Total liabilities		21,551,630	21,856,297
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	10	7,949,381	7,151,893
Warrants	11	1,342,300	487,257
Contributed surplus		1,757,183	1,744,326
Accumulated other comprehensive loss		(1,604,596)	(1,442,635)
Deficit		(6,916,356)	(5,704,471)
Total shareholders' equity (deficit)		2,527,912	2,236,370
Total liabilities and shareholders' equity (deficit)		24,079,542	24,092,667

Going concern (Note 1)

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

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Condensed Interim Consolidated Statements of Loss and Comprehensive loss

(Unaudited)

(Expressed in Canadian dollars)

	Note	Three months ended		Six months ended	
		September 30		September 30	
		Three months		30-Sep-14	
		2014	2013	2014	2013
		\$	\$	\$	\$
Revenue					
Oil and gas revenue		1,042,191	1,217,097	2,236,139	2,034,832
Royalties		(76,452)	(166,873)	(153,437)	(245,298)
		965,739	1,050,224	2,082,702	1,789,534
Other revenue		-	160,970	-	160,970
		965,739	1,211,194	2,082,702	1,950,504
Expenses					
Operating		499,511	626,828	1,036,021	851,283
Transportation		19,301	12,414	26,055	25,501
General and administrative		526,792	511,439	1,289,605	1,063,682
Foreign exchange		34,207	67,898	17,355	166,583
Loss on sale of marketable securities	4	111,655	-	111,655	-
Fair value adjustment on marketable securities	4	(8,728)	-	133,160	-
Loss on conversion of convertible notes	8	82,434	-	82,434	-
Fair value adjustment on derivative liability	8	(391,672)	(19,779)	(392,640)	(51,632)
Depletion and depreciation		188,443	128,474	385,030	227,445
		1,061,943	1,327,274	2,688,675	2,282,862
Loss from operations		(96,204)	(116,080)	(605,973)	(332,358)
Finance income	14	-	-	-	126,120
Finance expense	14	(360,724)	(212,539)	(605,912)	(489,838)
Net finance expense		(360,724)	(212,539)	(605,912)	(363,718)
Net loss		(456,928)	(328,619)	(1,211,885)	(696,076)
Exchange differences on translation on foreign operations		(510,784)	(85,255)	(161,961)	(358,762)
Comprehensive loss		(967,712)	(413,874)	(1,373,846)	(1,054,838)
Net loss per share					
Basic and diluted	13	(0.02)	(0.04)	(0.07)	(0.08)
Weighted average shares outstanding					
Basic and diluted	13	20,078,169	8,269,951	17,315,837	8,229,413

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

Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(Expressed in Canadian dollars)

	Note	For the six months ended	
		2014	2013
		September 30	September 30
		\$	\$
Share capital	10		
Balance - beginning of period		7,151,893	6,556,260
Unit private placement, net of issue costs		1,125,725	117,819
Fair value of warrants		(867,900)	(93,000)
Conversion of convertible notes		539,663	-
Balance - end of period		7,949,381	6,581,079
Warrants	11		
Balance - beginning of period		487,257	1,231,069
Fair value of warrants		867,900	93,000
Expiry of warrants		(12,857)	(399,603)
Balance - end of period		1,342,300	924,466
Contributed surplus			
Balance - beginning of period		1,744,326	907,514
Expiry of warrants		12,857	399,603
Balance - end of period		1,757,183	1,307,117
Accumulated other comprehensive loss			
Balance - beginning of period		(1,442,635)	(880,286)
Exchange differences on translation of foreign operations		(161,961)	(358,762)
Balance - end of period		(1,604,596)	(1,239,048)
Deficit			
Balance - beginning of period		(5,704,471)	(9,913,714)
Net income (loss)		(1,211,885)	(696,076)
Balance - end of period		(6,916,356)	(10,609,790)
Total equity		2,527,912	(3,036,176)

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

Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Condensed Interim Consolidated Statements of Cashflows

(Unaudited)

(Expressed in Canadian dollars)

	Note	Six months ended	
		2014	2013
		September 30	September 30
		\$	\$
Operating activities			
Net loss		(1,211,885)	(696,076)
Items not involving cash:			
Loss on sale of marketable securities		111,655	-
Fair value adjustment on marketable securities		133,160	-
Loss on conversion of convertible notes		82,434	-
Fair value adjustment on derivative liability		(392,640)	(51,632)
Share based compensation		-	-
Depletion and depreciation		385,030	227,445
Royalties on oil share agreement		-	95,789
Finance expense		384,752	318,551
Reclassification between operating expense and property and equipment		-	23,077
		(507,494)	(82,846)
Foreign exchange on translation		43,995	37,393
Change in non-cash working capital	16	(81,798)	(894,973)
		(545,297)	(940,426)
Financing activities			
Repayment of notes payable		(289,983)	-
Proceeds from issue of share capital, net of share issue costs		1,125,725	117,819
Change in non-cash working capital	16	-	15,000
		835,742	132,819
Investing activities			
Proceeds on sale of marketable securities		48,083	-
Cash received on business combination, net of cash paid		-	1,843,450
Expenditures on property and equipment		(135,381)	(24,323)
Prepaid property and equipment insurance		-	(578,407)
Change in non-cash working capital	16	52,652	142,266
		(34,647)	1,382,986
Change in cash		255,799	575,379
Foreign exchange effect on cash held in foreign currencies		(40,522)	(25,579)
Cash, beginning of period		711,248	346,541
Cash, end of period		926,525	896,341

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

Zenith Energy Ltd.

(Formerly Canoel International Energy Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended September 30

(Unaudited)

(Expressed in Canadian dollars)

1. Nature of operations and going concern

Zenith Energy Ltd. (“Zenith” or the “Company”), formerly Canoel International Energy Ltd., was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007. The address of the Company’s registered office is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Company is primarily involved in the exploration for, development of and production of oil and natural gas properties primarily in Argentina and Italy.

As at September 30, 2014, the Company has a working capital deficit of \$2,070,404 (March 31, 2014 – \$4,273,352) and an accumulated deficit of \$6,916,356 (March 31, 2014 – \$5,704,471) since its inception, and may incur future losses in the development of its business. Current cash resources will not be sufficient to continue the exploration and development activities. These matters raise significant doubt about the ability of the Company to continue to meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and maintain future profitable operations in Argentina and Italy. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

During the three months ended September 30, 2014, the Company extended the maturity date of the loan payable to June 1, 2016 (Note 7) and converted \$539,663 principal amount of convertible notes to common shares (Note 8).

These consolidated financial statements have been prepared on the basis of the going concern assumption that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these consolidated financial statements, and that the Company will be able to continue its business activities. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these consolidated financial statements, then the adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

2. Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standard 34 – Interim Financial Reporting. The Company has consistently applied the same accounting policies throughout all periods presented except as noted below (Note 3). These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Corporation’s annual filings for the year ended March 31, 2014.

The following entities have been consolidated within the Company’s financial statements:

<u>Entity</u>	<u>Registered</u>	<u>Holding</u>
Zenith Energy Ltd.	Canada	Parent
Ingenieria Petrolera del Rio de la Plata SRL	Argentina	100%
Ingenieria Petrolera Patagonia SRL (“IPP”)	US	100%
Canoel Italia SRL	Italy	100%
Petrolera Patagonia Corporation (“PPC”)	US	100% owned subsidiary of IPP
PP Holding Inc. (“PPH”)	US	100% owned subsidiary of IPP
Petrolera Patagonia SRL	Argentina	95% owned subsidiary of PPC and 5% held by PPH

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(Unaudited)

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These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 30, 2014.

3. Changes in accounting policies

As disclosed in the Company's March 31, 2014 audited consolidated financial statements, on April 1, 2014, the Company adopted the new standard IFRIC 21 Levies as well as amendments to IAS 24 Related Party Disclosures, IAS 32 Financial Instruments: Presentation, IAS 36 Impairment of Assets, IAS 39 Financial Instruments: Recognition and Measurement. The adoption of these standards and amendments had no impact on the amounts recorded or disclosures included in the unaudited condensed interim consolidated financial statements as at and for the three and six months ended September 30, 2014.

4. Marketable securities

As at March 31, 2014, the Company held 222,000 common shares of an unrelated party, Global Resources Investment Trust plc ("GRIT") with a fair value of £205,350 (CAD \$378,460).

In July and August 2014, the Company sold 87,070 GRIT shares for proceeds of \$48,083 and recognized a \$111,655 loss on the sale of marketable securities in the consolidated statement of loss and comprehensive loss.

As at September 30, 2014, the Company held 134,930 GRIT shares with a fair value of £43,852 (CAD \$79,714). During the three and six months ended September 30, 2014, the Company recognized a (gain) loss on the fair value of the marketable securities of \$(8,728) and \$133,160, respectively and a loss on foreign exchange of \$645 and \$4,115, respectively, in relation to the GRIT shares in the consolidated statement of loss and comprehensive loss.

5. Property and equipment

	D&P assets	Furniture & fixtures	Total
Cost			
Balance – March 31, 2014	\$ 22,314,572	\$ 80,634	\$ 22,395,206
Additions	135,381	–	135,381
Decommissioning obligation revisions	1,839,085	–	1,839,085
Foreign currency translation	(1,374,556)	(3,389)	(1,377,945)
Balance – September 30, 2014	22,914,482	77,245	22,991,727
Accumulated depletion and depreciation			
Balance – March 31, 2014	\$ (1,407,921)	\$ (49,847)	\$ (1,457,768)
Depletion and depreciation	(382,934)	(2,096)	(385,030)
Foreign currency translation	49,661	2,113	51,774
Balance – September 30, 2014	(1,741,194)	(49,830)	(1,791,024)
Carrying amount			
March 31, 2014	\$ 20,906,651	\$ 30,787	\$ 20,937,438
September 30, 2014	\$ 21,173,288	\$ 27,415	\$ 21,200,703

The depletion calculation for the three and six months ended September 30, 2014 included estimated future development costs of \$3.8 million for proved and probable reserves (March 31, 2014 – \$4.0 million).

The Company did not identify any indicators of impairment at September 30, 2014.

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6. Notes payable

As at September 30, 2014, the Company had US\$143,900 (March 31, 2014 – US\$340,000) of notes payable outstanding secured by a mortgage on the oil and natural gas properties in Argentina and bearing interest at a fixed rate of interest of 11%.

As at September 30, 2014, the balance of notes payable is \$228,017 including accrued interest (March 31, 2014 – \$374,068).

7. Loan payable

As at March 31, 2014 and September 30, 2014, the Company had loan payable in the principal amount of US\$2,050,000 due to a private lender with the following terms as amended on July 30, 2014 where noted:

- Maturity date of June 1, 2015, amended to June 1, 2016;
- Interest rate of 10% per annum, calculated yearly and payable in monthly installments on the last day of each month;
- Interest only payments for the first 12 months, then equal monthly installments of principal and interest until June 1, 2015 amended to require all accrued and unpaid interest up to June 1, 2015 paid in full by June 1, 2015, then equal monthly installments of principal and interest until June 1, 2016;
- Conversion of the loan to bonds and the issuance of 500,000 warrants to the lender exercisable at \$1.00 per share until June 1, 2015, subject to approval by the TSX Venture Exchange, for which the estimated fair value of the conversion feature is negligible; and
- Distribution of certain net profits to the lender, as defined in the amended loan agreement, related to the sale of all or part of the Company's assets and operations in Argentina.
- Pledge of the shares of the Company's wholly owned subsidiary Ingenieria Petrolera Patagonia SRL as security for the loan payable.

As at September 30, 2014, \$574,410 (March 31, 2014 – \$1,888,221) of principal is classified as a current liability; \$1,723,230 (March 31, 2014 – \$377,644) of principal is classified as long-term and \$190,084 (March 31, 2014 – \$131,285) of accrued interest is included in traded and other payables.

8. Convertible notes

	Face value	Debt component	Derivative liability
	\$	\$	\$
Balance – March 31, 2014	1,350,169	1,265,789	1,101
Modification	–	(564,645)	564,645
Conversion	(539,663)	(331,808)	(102,421)
Change in fair value	–	–	(392,640)
Accretion	–	174,432	–
Foreign exchange	(83,148)	(61,096)	–
Balance – September 30, 2014	727,358	482,672	70,685

As at March 31, 2014, the Company held \$1,080,000 Swiss Francs (CAD\$1,350,169) of unsecured convertible notes bearing interest at a simple interest rate of 9% per annum, payable in arrears in equal quarterly installments commencing April 11, 2012.

The notes mature on January 11, 2015. At any time prior to maturity and at the option of the note holder, the

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principal and any unpaid interest of a note may be converted into common shares of the Company at a price of CAD\$1.50 per share. On August 21, 2014, the Company reduced the conversion price to CAD\$0.215 per share. The effect of the conversion price reduction has been accounted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be \$564,645 on the date of the modification.

The fair value of the derivative liability was determined using the Black-Scholes pricing model based on the following assumptions:

	August 21, 2014	September 30, 2014
Risk free interest rate	1.07%	1.13%
Expected life	0.32 years	0.21 years
Expected volatility	100%	100%

On September 12, 2014, \$460,000 Swiss Francs (CAD\$539,663) of convertible notes were converted into 2,510,058 common shares and \$23,000 of accrued and unpaid interest forgiven resulting in the recognition of a \$82,434 loss on conversion of convertible notes in the consolidated statement of loss and comprehensive loss.

Interest is accrued and presented in trade and other payables in the amount of \$178,977 as at September 30, 2014 (March 31, 2014 – \$156,865).

9. Decommissioning obligation

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

Balance – March 31, 2014	\$	13,392,936
Accretion		208,909
Change in estimate		1,839,085
Foreign currency translation		(1,336,432)
Balance – September 30, 2014	\$	14,104,498

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

Undiscounted cash flows	\$202 million
Risk free rate	24.5%
Inflation rate	17.5%
Weighted average expected timing of cash flows	18 years

10. Share capital

	Number of common shares	Amount \$
Balance – March 31, 2014	11,252,039	7,151,893
Unit private placement (a)	8,335,032	1,250,255
Fair value of warrants (a)	–	(819,820)
Conversion of convertible notes (b)	2,510,058	539,663
Share issue costs	–	(172,610)
Balance – September 30, 2014	22,097,129	7,949,381

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(Formerly Canoel International Energy Ltd.)

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(Unaudited)

(Expressed in Canadian dollars)

(a) Unit private placement

In May 2014 and June 2014, the Company completed the private placement of 8,335,032 units at \$0.15 per unit for gross proceeds of \$1,250,255. Each unit is comprised of one common share and one warrant exercisable at \$0.25 per share for a period of 36 months from the date of issuance. In connection with the unit private placement, the Company incurred \$45,850 of issuance costs, paid finder's fees of \$78,680 and issued 492,135 finder's warrants exercisable at \$0.25 for a period of 36 months from the date of issuance.

Officers and directors subscribed for 716,666 units for gross proceeds of \$107,500.

The fair value of the warrants was estimated at \$819,820 (\$0.098 per warrant) and the fair value of the finder's warrants was estimated at \$48,080 (\$0.098 per warrant) using the Black-Scholes pricing model and the following significant weighted average assumptions:

Volatility	75%
Risk-free rate	1.13%
Expected life	3 years

(b) Conversion of convertible notes

On September 12, 2014, the Company converted \$539,663 principal amount of convertible notes into 2,510,058 common shares at a conversion price of CAD\$0.215 per share as disclosed in Note 7.

11. Warrants

	Number of warrants	Amount \$	Weighted average exercise price
Balance – March 31, 2014	2,553,367	487,257	\$ 0.87
Unit private placements (Note 10)	8,335,032	819,820	0.25
Finder's fees (Note 10)	492,135	48,080	0.25
Expired	(57,500)	(12,857)	(5.00)
Balance – September 30, 2014	11,323,034	1,342,300	\$ 0.37

Information about warrants outstanding and exercisable as at September 30, 2014 is as follows:

Exercise price	Number of warrants	Weighted average remaining life (years)	Weighted average exercise price
\$ 0.25	9,577,167	2.52	\$ 0.25
\$ 1.00	1,745,867	0.31	1.00
	11,323,034	2.18	\$ 0.37

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(Expressed in Canadian dollars)

12. Stock options

As at March 31, 2014, the Company had 214,000 stock options outstanding and exercisable. In September 2014, 25,000 stock options expired, reducing the number of stock options outstanding and exercisable as at September 30, 2014 to 189,000. Information about stock options outstanding as at September 30, 2014 is as follows:

Exercise price	Number of options	Weighted average remaining life (years)	Weighted average exercise price
\$ 1.00	175,000	1.19	\$ 1.00
\$ 1.50	7,000	0.07	1.50
\$ 1.70	7,000	0.35	1.70
	189,000	1.04	\$ 1.11

13. Per share amounts

	Three months ended		Six months ended	
	September 30		September 30	
	2014	2013	2014	2013
	\$	\$	\$	\$
Net loss	(456,928)	(328,619)	(1,211,885)	(696,076)
Weighted average number of shares – basic:				
Issued common shares as at April 1	11,252,039	8,188,429	11,252,039	8,188,429
Effect of common shares issued during the period	8,826,130	81,522	6,063,798	40,984
	20,078,169	8,269,951	17,315,837	8,229,413
Net loss per share – basic and diluted ⁽¹⁾	(0.02)	(0.04)	(0.07)	(0.08)

⁽¹⁾ The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

14. Finance income and expense

	Three months ended		Six months ended	
	September 30		September 30	
	2014	2013	2014	2013
	\$	\$	\$	\$
Income:				
Recovery of loan payable interest	–	–	–	126,120
Expense:				
Interest expense	106,935	114,775	222,571	319,751
Accretion of decommissioning obligation	105,611	71,222	208,909	117,423
Accretion of convertible notes	148,178	26,542	174,432	52,664
	360,724	212,539	605,912	489,838
Net finance expense	(360,724)	(212,539)	(605,912)	(363,718)

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(Unaudited)

(Expressed in Canadian dollars)

15. Presentation of employee compensation cost

(a) Employee compensation cost

The unaudited condensed interim consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense with the exception of employee compensation cost which is included in operating and general and administrative expenses. The following table details the amounts of total employee compensation included in the statements of loss and comprehensive loss:

	Three months ended		Six months ended	
	September 30		September 30	
	2014	2013	2014	2013
	\$	\$	\$	\$
Operating	271,133	67,066	489,329	423,655
General and administrative	55,636	83,401	291,928	232,268
Total employee compensation cost	326,769	150,467	781,257	655,923

16. Change in non-cash working capital

For the six months ended September 30	2014	2013
Trade and other receivables	\$ 66,913	\$ (509,565)
Inventory	5,749	17,500
Prepaid expenses	(127)	(269,648)
Trade and other payables	(101,681)	24,006
Total change in non-cash working capital	\$ (29,146)	\$ (737,707)

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

For the six months ended September 30	2014	2013
Operating	\$ (81,798)	\$ (894,973)
Financing	–	15,000
Investing	52,652	142,266
Total change in non-cash working capital	\$ (29,146)	\$ (737,707)

17. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. Related party transactions during the three months ended June 30, 2014 and 2013 not disclosed elsewhere in these consolidated financial statements are as follows:

- Included in general and administrative expenses for the three and six months ended September 30, 2014 is \$64,237 and \$132,296 (three and six months ended September 30, 2013 – \$36,379 and \$85,483), respectively, charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at September 30, 2014, \$nil (March 31, 2014 – \$nil) was included in trade and other payables in respect of these charges.
- Included in interest expense for the three and six months ended September 30, 2014 is \$1,090 and \$2,466 (three and six months ended September 30, 2013 – \$\$1,265 and \$2,484), respectively, on \$50,000 Swiss Francs of convertible notes (Note 8) held by company controlled by a director of the Company, of which \$nil

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is included in trade and other payables as at September 30, 2014 (March 31, 2014 – \$12,515). These notes were converted to common shares and the related accrued and unpaid interest forgiven on September 12, 2014 (Note 8).

- c) Included in trade and other payables is \$2,844 (March 31, 2014 – \$13,803) due to an officer and director of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officer and director will be reimbursed.

18. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Company's maximum credit risk exposure is limited to the September 30, 2014 carrying amount cash of \$926,525 (March 31, 2014 – \$711,248) and trade and other receivables of \$1,081,247 (March 31, 2014 – \$1,215,913).

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

	September 30 2014	March 31 2014
Oil and natural gas sales	\$ 662,091	\$ 909,525
Stamp tax and other tax withholdings	318,780	235,953
Goods and services tax	3,000	10,861
Other	97,376	59,574
	<u>\$ 1,081,247</u>	<u>\$ 1,215,913</u>

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

The Company considers its receivables to be aged as follows:

	September 30 2014	March 31 2014
Current	\$ 672,449	\$ 933,343
90 + days	408,798	282,570
	<u>\$ 1,081,247</u>	<u>\$ 1,215,913</u>

b) Liquidity risk

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

As at September 30, 2014, the Company had \$4,517,269 (March 31, 2014 – \$6,879,084) of current liabilities

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for which the Company's \$926,525 (March 31, 2014 – \$711,248) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company.

As of September 30, 2014, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying amount	Contractual cashflows	Due on or before September 30 2015	Due subsequent to September 30 2015
Trade and other payables	\$ 2,274,271	2,274,271	2,274,271	–
Oil share agreement	887,214	887,214	887,214	–
Notes payable	228,017	229,522	229,522	–
Loan payable	2,297,640	2,681,355	631,810	2,049,545
Convertible note	482,672	745,831	745,831	–
	\$ 6,169,814	6,818,193	4,768,648	2,049,545

c) Market Risk

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net loss income or the value of financial instruments.

i) Currency risk

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

	Closing rate		Average rate	
	September 30 2014	March 31 2014	Six months ended September 30 2014	September 30 2013
ARS	0.1322	0.1380	0.1333	0.1908
US dollars	1.1200	1.1055	1.0895	1.0308
Euro	1.4153	1.5227	1.4688	1.3561
Swiss Franc	1.1732	1.2501	1.2117	1.1003

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at September 30, 2014 and 2013 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	Three months ended September 30		Six months ended September 30	
	2014	2013	2014	2013
	\$	\$	\$	\$
US Dollars	12,210	73,590	258,050	56,000
Swiss Franc	2,180	29,680	145,870	71,650

i) 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, 2014, a 5% change in the price of natural gas produced in Italy would represent a

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change in net loss for the three and six months ended September 30, 2014 of approximately \$13,500 and \$25,600, respectively (three and six months ended September 30, 2013 – \$16,700 and \$23,600, respectively).

Oil prices in Argentina are the results of complicated formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. As at September 30, 2014, a 5% change in the price of oil would represent a change in net loss for the three and six months ended September 30, 2014 of approximately \$36,900 and \$83,900, respectively (three and six months ended September 30, 2013 – approximately \$52,300 and \$89,000, respectively).

ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has fixed interest on notes payable (Note 6), loan payable (Note 7) and convertible notes (Note 8).

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19. Operating segments

The Company's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Company's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Company's management. The Company has three reportable segments which are as follows:

- Argentina;
- Italy; and
- Other, which includes corporate assets and the operations in the Canadian and US entities. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2014 or 2013.

	September 30, 2014				March 31, 2014			
	Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Property and equipment	\$ 4,854,494	16,346,209	-	21,200,703	3,267,138	17,670,300	-	20,937,438
Other assets	\$ 815,747	1,453,909	609,183	2,878,839	1,047,784	1,627,287	480,158	3,155,229
Total liabilities	\$ 6,530,752	11,117,049	3,903,829	21,551,630	5,380,166	11,803,204	4,672,927	21,856,297
Capital expenditures	\$ (30,147)	(105,234)	-	(135,381)	(7,069)	(325,048)	-	(332,117)

	Three months ended September 30							
	2014		2013		2014		2013	
	Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Revenue	\$ 738,300	775,316	303,891	441,781	-	160,970	1,042,191	1,378,067
Royalties	76,452	75,333	-	-	-	91,540	76,452	166,873
Operating and transportation	413,726	463,395	105,086	175,847	-	-	518,812	639,242
General and administrative	154,195	71,471	143,411	63,950	229,186	376,018	526,792	511,439
Depletion and depreciation	94,345	101,006	94,098	27,468	-	-	188,443	128,474
Finance and other expenses	122,324	142,693	6,277	24,491	60,019	93,474	188,620	260,658
Segment loss	\$ (122,742)	(78,582)	(44,981)	150,025	(289,205)	(400,062)	(456,928)	(328,619)

	Six months ended September 30							
	2014		2013		2014		2013	
	Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Revenue	\$ 1,675,693	1,509,113	560,446	525,719	-	160,970	2,236,139	2,195,802
Royalties	153,437	149,509	-	-	-	95,789	153,437	245,298
Operating and transportation	827,950	618,925	234,126	257,859	-	-	1,062,076	876,784
General and administrative	305,686	220,754	243,532	100,029	740,387	742,899	1,289,605	1,063,682
Depletion and depreciation	199,098	199,977	185,932	27,468	-	-	385,030	227,445
Finance and other expenses	306,519	333,710	13,079	24,491	238,278	120,468	557,876	478,669
Segment income (loss)	\$ (116,997)	(13,762)	(116,223)	115,872	(978,665)	(798,186)	(1,211,885)	(696,076)