



ZENITH ENERGY LTD.

UNAUDITED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 31 DECEMBER, 2017
AND COMPARATIVE PERIOD (31 DECEMBER, 2016).

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements as at and for the nine months ended December 31, 2017.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Managements' Responsibility

To the Shareholders of Zenith Energy Ltd.:

The accompanying unaudited condensed interim consolidated financial statements of Zenith Energy Ltd. (the "**Company**") as at and for the three and nine months ended December 31, 2017, have been prepared by and are the responsibility of the management of the Company and have been approved by the Company's Board of Directors. 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"
Chief Executive Officer & President

(signed) "Luca Benedetto"
Chief Financial Officer

February 15, 2018

Calgary, Alberta

CONTENTS

4	HIGHLIGHTS
7	CEO'S STATEMENT
8	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
10	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
11	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
13	CONSOLIDATED STATEMENT OF CASH FLOWS
14	NOTES TO THE FINANCIAL STATEMENTS

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

HIGHLIGHTS

Highlights for the nine months ended December 31, 2017 include the following:

- a) During the three and nine months ended December 31, 2017 the Company produced 22,317 and 70,271 bbls of oil from its assets in Azerbaijan. During the three and nine months ended December 31, 2017 the Company sold 18,984 and 61,666 bbls of oil from its assets in Azerbaijan. There is no exact comparative data for the period ended December 31, 2016 because the effective handover data, and the consequent beginning of operations was August 11, 2016.

It should be noted that production from a number of the Company's wells in Azerbaijan was suspended during Q3 as a result of field rehabilitation operations, specifically the installation of electrical submersible pumps and well interventions. Daily production from the field was also affected as a result of the Company receiving faulty chemical to treat its oil production from an international chemical supplier. The Company is now seeking to have the faulty chemical replaced and has ordered new chemical supplies to avoid similar problems being incurred in future.

- b) During three and nine months ended December 31, 2017, the Company sold 3,578 and 13,199 mcf of natural gas production from its Italian assets.
- c) During the three and nine months ended December 31, 2017, the Company sold 295 and 782 bbls of condensate production from its Italian assets.
- d) During the three and nine months ended December 31, 2017, the Company sold 1,922 and 7,185 MWh of electricity production from its Italian assets.
- e) On July 29, 2017 the Company established an oilfield services subsidiary company, Zena Drilling Limited ("**Zena**"), incorporated in the Ras Al Khaimah Free Trade Zone ("**RAKFTZ**"), United Arab Emirates ("**UAE**"). Zena is a 100% beneficially owned subsidiary of the Company. Zena was incorporated by and the shares in Zena are currently registered in the name of Mr Andrea Cattaneo as trustee for the Company. Due to the process of incorporation in RAKFTZ, this was the most efficient method of establishment and due to the UAE not being a signatory to The Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents, the process of transferring legal ownership to Zenith is elongated and is not expected to be completed until later in 2018.
- f) On October 12, 2017 an investor in the Company exercised warrants to acquire 2,049,775 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received was CAD\$307k (approximately £186k).
- g) On October 16, 2017 a Director of the Company, Mr. Andrea Cattaneo, purchased 500,000 common shares of no par value in the capital of the Company at an average price of CAD\$0.15591 per common share (approximately £0.09415), and a total cost of CAD\$78k (approximately £47k).
- h) On October 19, 2017 an investor in the Company exercised warrants to acquire 1,257,875 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received was CAD\$189k (approximately £114k).
- i) On October 23, 2017 an investor in the Company has exercised warrants to acquire 1,306,050 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.20 per share, and the total consideration received was CAD\$261k (approximately £160k).
- j) On November 1, 2017 the Company announced that it had signed a commitment letter with Olieum Services WLL ("**Olieum**"), an integrated oilfield services and equipment joint venture based in Bahrain, for the procurement of a Genesis BQ500 onshore drilling rig. Olieum has worked closely with the Company to structure a unique lease arrangement that aligns Zenith's targeted growth plans and cash flows with its future equipment requirements.

The Genesis BQ500 is the latest generation, automated onshore hydraulic drilling rig to be manufactured by B Robotics W S.R.L, a founding partner in Olieum, and a leading Italian oil and gas innovation company specialising in the design and manufacture of advanced oil and gas drilling equipment. The rig is expected

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

to deliver enhanced automation, efficiency and safety to the Company's drilling operations, whilst driving down costs and time-to-production. This has largely been achieved through extensive research and development in modular rig design, and in key components including the monkey board, slips, lay-up and down machine, pipe containers, roughneck, subs and bits loader, and all the working floor tools.

Manufacturing of the Genesis BQ500 is scheduled to begin upon the fulfilment of the preliminary conditions detailed in the commitment letter. This is expected to take place in late 2017, with delivery anticipated in the second half of 2018.

- k) On November 2, 2017 an investor in the Company exercised warrants to acquire 500,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received was CAD\$75k (approximately £44k).
- l) On November 2, 2017, Zenith was a founding party in a newly incorporated Italian company named 'Leonardo Energy Consulting S.r.l.'. The Company holds a 48 percent interest in the entity. The primary purpose of this subsidiary is the identification of business development opportunities in Central Asia and in the Middle East.
- m) On November 8, 2017 an investor in the Company exercised warrants to acquire 1,612,142 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.20 per share, and the total consideration received CAD\$322k (approximately £195k).
- n) On November 22, 2017 an investor in the Company exercised warrants to acquire 3,150,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received CAD\$473k (approximately £284k).
- o) On November 23, 2017 a Director of the Company exercised stock options to acquire 2,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.10 per share, and the total consideration received CAD\$200k (approximately £118k).
- p) On November 29, 2017 the Company granted additional Options to certain of its Directors and employees to acquire a total of 2,000,000 Common Shares pursuant to its Stock Option Plan. Each Option granted entitles the relevant holder to acquire one Common Share for an exercise price of CAD \$0.175 (approximately £0.1025) per Common Share. The expiry date of the Options is the date falling five years from the date of grant, being November 29, 2022.
- q) On December 11, 2017 an investor in the Company exercised warrants to acquire 400,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.20 per share, and the total consideration received CAD\$80k (approximately £47k).
- r) On December 15, 2017 a Director of the Company exercised stock options to acquire 1,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received CAD\$150k (approximately £87k).
- s) On December 18, 2017 the Company announced that a Director of the Company had exercised stock options to acquire 500,000 new common shares of no par value in the capital of the Company at an exercise price of CAD\$0.10 per stock option (approximately £0.06) at a total cost of CAD\$50,000 (£30k).

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

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

POST-PERIOD HIGHLIGHTS

- a) On January 10, 2018 the Company closed a private placement to raise gross proceeds of CAD\$500k (approximately £297k) through the issue of 4,000,000 new common shares of no par value in the capital of the Company at a price of CAD\$0.125 (approximately £0.0742) per new common share with Canadian investors. The proceeds of the private placement have been allocated for the purchase of equipment to develop the Company's oil production operations in Azerbaijan. The Company also paid finder's fees for £3k (approximately CAD\$5k).
- b) On January 12, 2018 the Company has entered into an exclusivity agreement (the "**Agreement**") for the acquisition of various production and exploration licences in a Central Asian country (the "**Proposed Acquisition**").

The Proposed Acquisition envisages Zenith acquiring a combined total acreage covering approximately 3,600 sq. kilometres.

Specifically, these include:

- production areas covering approximately 550 sq. kilometres, and highly prospective exploration areas covering approximately 3,050 sq. kilometres.
- Low-cost existing production of approximately 250 bopd transported via tanker to local refineries.
- The Proposed Acquisition licences are located in a prolific oil and gas basin with a proven petroleum system. These licences are significantly undeveloped and present a number of highly attractive field rehabilitation and exploration opportunities through the introduction of new technology and the application of international oil production expertise.
- Extensive 2D seismic performed across the license areas.

The Company will provide an update regarding the progress of the Proposed Acquisition once the due diligence process has been completed. The Proposed Acquisition remains at an early stage and there can be no guarantee that the transaction will be successfully completed. Completion of the Proposed Acquisition remains conditional on, inter alia, completion of satisfactory due diligence, the entering into of binding agreements and financing of the Proposed Acquisition.

The Agreement provides that Zenith shall hold the exclusive right to negotiate the signing of the Proposed Acquisition. The Agreement will expire on the latter of execution of the Proposed Acquisition, or April 30, 2018.

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

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

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

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

The Settlement Shares, issued pursuant to the Share Settlement, will be subject to a contractual hold period of one year, inclusive of a four-month hold period under the rules and regulations of the TSX Venture Exchange and applicable Canadian securities laws.

The Share Settlement is subject to the final approval of the TSXV.

Following the issue of the New Common Shares, the Company has 158,798,698 common shares in issue and admitted to trading on the Toronto Stock Exchange Venture Exchange.

Zenith currently has 153,200,119 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange. The above figure may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or change to their interest in, the share capital of the Company under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. A further announcement will be made closer to Admission in relation to the Total Voting Rights of the Company's common shares admitted to trading on the Main Market of the London Stock Exchange.

- e) On January 25, 2018 the Company announced that it has signed a purchase agreement contract for the order of a new workover rig, (the "**New Workover Rig**"), with a well-established manufacturer based in Azerbaijan.

The New Workover Rig is designated as an A-100 truck-mounted workover rig. The model of the New Workover Rig has an extensive manufacturing history in Russian and Central Asian countries and is among the most heavily utilised workover rig variants in the region. The abundant availability of spare parts and mechanical support in the proximity of the Company's operations has played an important role in the selection of the New Workover Rig.

The use of the New Workover Rig will not be restricted to the Company's Azerbaijan operations.

Delivery of the New Workover rig is expected to take place ninety days from the signing of the purchase agreement contract.

The total value of the purchase agreement contract for the New Workover Rig is approximately CAD\$440k (approximately £251k).

- f) 1,629,859 warrants to subscribe for common shares in the Company at a price of CAD\$0.25 per common share expired during January 2018. 3,124,400 warrants to subscribe for common shares in the Company at a price of CAD\$0.25 per common share expired during February 2018.
- g) In February 2018 the repayment terms for the Euro Bank loan with GBM Banca of Rome, with an original value of €220k, were amended and the balance of the loan is now repayable in 60 months. The payments of the principal and interest will run on a monthly basis until October 2022.

CEO STATEMENT

Zenith Energy Ltd. is an international oil and gas production company, incorporated in Canada, listed on the standard segment of the UK Official List, the Main Market of the London Stock Exchange (ZEN) and the TSX Venture Exchange (ZEE).

The Company's primary objective is the acquisition and development of proven onshore oil and gas fields where production has declined over time, but where significant untapped potential and increased productivity is possible. This can often be achieved through the injection of capital and the modernisation of oilfield infrastructure, as well as the application of latest-generation technology and oil production practices. To maximise shareholder value, Zenith targets acquisitions of production opportunities which offer strong logistical support and close proximity to refineries and pipelines. The Company's management and directors have extensive financial and governmental experience, as well as established petroleum industry technical experience, to successfully execute this strategy.

Zenith currently operates the largest onshore oilfield in Azerbaijan through its fully owned subsidiary, and also operates a balanced energy production portfolio in Italy, producing natural gas, natural gas condensate and electricity.

The past year has seen the fruition of many projects to which the Zenith's management has dedicated much time and effort, applying considerable financial resources. We can be proud of what we have achieved and look with confidence to the journey ahead.

On August 24, 2016 the Company announced the beginning of crude oil production at a rate of approximately 300 bopd in Azerbaijan. This milestone marked the successful completion of the handover process and the transfer of operatorship to Aran Oil Operating Company, an entity jointly created and owned by Zenith Aran Oil Company, a 100% subsidiary of the Company, and SOCAR, State Oil Company of the Republic of Azerbaijan. The formal handover process largely encompassed the transfer and registration of assets, including infrastructure, oil facilities, oil service vehicles and oil wells in the name of Aran Oil Operating Company.

Azerbaijan represents a transformational opportunity for the Company to produce very significant quantities of oil at low-cost and the Board of Directors is fully committed to the long-term development of these assets. The support of the Government and SOCAR throughout the process of formalising the Rehabilitation, Exploration, Development and Production Sharing Agreement (**REDPSA**) has been extremely positive and helpful. The Company now seeks to confirm Zenith's strengths as an operator in one of the largest and most successful oil and gas countries in the world.

On January 11, 2017 Zenith Energy Ltd. also announced that its entire Common Share capital was admitted to the standard segment of the UK Official List and to trading on the London Stock Exchange's Main Market, standard segment, under the ticker symbol "ZEN".

The Company is now also in a position to evaluate the acquisition of additional energy production opportunities, building on the momentum generated by its recent success to further support the Company's development.

This has been a period of significant growth for the Company and I look forward to updating our shareholders on Zenith's development over the course of the 2018 fiscal year.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Consolidated Statement of Comprehensive Income

	Note	Nine months ended	
		31 December 2017 Unaudited CAD \$'000	31 December 2016 Unaudited CAD \$'000
Continuing operations			
Revenue	22	4,402	2,984
Royalties		-	(7)
Cost of Sales			
Production costs		(1,959)	(1,804)
Depletion and depreciation	7	(976)	(523)
Gross Profit / (Loss)		1,467	650
Administrative expenses	4	(962)	(3,697)
Gain on business acquisition		-	771,189
Operating Profit / (Loss)		505	768,142
Fair value movements		-	(40)
Gain (loss) on sale of marketable securities		-	4
Foreign exchange		-	221
Net Interest expense	5	64	(570)
Profit/(Loss) for the period before taxation		569	767,757
Taxation	6	-	(153,044)
Profit/(Loss) for the period from continuing operations		569	614,713
(Loss)/Profit from discontinued operations, net of tax		-	-
Profit/(Loss) for the period		569	614,713
Other Comprehensive Income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		68	(8,428)
Total Comprehensive Income for the period attributable to equity holders for the parent company		637	606,285

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Earnings per share (CAD\$)	20		
Basic from profit / (loss) for the period		0.01	10.59
Diluted from profit / (loss) for the period		0.01	5.90
From continuing operations - basic		0.01	10.59
From continuing operations - diluted		0.01	5.90
From discontinued operations – basic and diluted		0.01	5.90

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Consolidated Statement of Financial Position

		Nine months ended	
		31 December 2017	31 December 2016
		Unaudited	Unaudited
ASSETS	Note	CAD \$'000	CAD \$'000
Non-current assets			
Property, plant and equipment	7	1,075,743	1,066,398
Capitalised expenses	8	2,378	-
Other financial assets	9	430	161
		1,078,551	1,066,559
Current Assets			
Inventory	19	296	322
Trade and other receivables	22	1,912	1,956
Financial instruments at fair value through profit or loss	12	0	-
Cash and cash equivalents		2,358	315
		4,566	2,593
TOTAL ASSETS		1,083,117	1,069,152
EQUITY AND LIABILITIES			
Equity attributable to equity holders for the parent company			
Share capital	10	20,867	11,456
Share warrants and option reserve	11	1,172	1,800
Contributed surplus		2,232	2,231
Retained earnings / (deficit)		554,646	590,687
Total equity		578,917	606,174
Non-current liabilities			
Borrowings	13	2,339	2,376
Deferred consideration payable	15	484,034	287,044
Convertible loans	14	-	1,309
Decommissioning provision	16	7,980	9,704
Deferred tax liabilities	6	2,398	153,927
Total non-current liabilities		496,751	454,360
Current Liabilities			
Trade and other payables	22	3,857	4,893
Oil share agreement		-	1,063
Borrowings	13	2,771	1,946
Deferred consideration payable	15	440	502
Convertible loans	14	381	214
Total current liabilities		7,449	8,618
TOTAL EQUITY AND LIABILITIES		1,083,117	1,069,152

Going concern (Note 1)

The notes on pages 15 to 54 form part of the Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 15 February 2018 and are signed on its behalf by: **Andrea Cattaneo, Chief Executive Officers**

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Consolidated Statement of Changes in Equity	Share capital	Warrants and share option reserve	Contributed surplus	Retained earnings / (deficit)	Total
	CAD\$'000	CAD\$'000	CAD\$'000	CAD\$'000	CAD\$'000
Balance as at 1 April 2016	9,578	1,510	2,231	(15,598)	(2,279)
Income/(loss)	-	-	-	606,285	606,285
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	606,285	606,285
Share issue net of costs - conversion of loan notes	300	-	-	-	300
Share issue net of costs – debt settlement	45	-	-	-	45
Share issue net of costs - private placement	1,533	-	-	-	1,533
Value of options issued	-	290	-	-	290
Expired options	-	-	-	-	-
Total transactions with owners recognised directly in equity	1,878	290	-	-	2,168
Balance as at 31 December 2016	11,456	1,800	2,231	590,687	606,174

Consolidated Statement of Changes in Equity	Share capital	Warrants and share option reserve	Contributed surplus	Retained earnings / (deficit)	Total
	CAD\$'000	CAD\$'000	CAD\$'000	CAD\$'000	CAD\$'000
Balance as at 1 April 2017	17,229	1,877	2,332	554,009	575,447
Income/(loss)	-	-	-	637	637
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	637	637
Share issue net of costs - conversion of loan notes	-	-	-	-	-
Share issue net of costs – debt settlement	15	-	-	-	15
Share issue net of costs - private placement	1,343	-	-	-	1,343
Share issue net of costs - exercise of options	2,280	(685)	(100)	-	1,495
Expired options	-	(20)	-	-	(20)
Total transactions with owners recognised directly in equity	3,638	(705)	(100)	-	2,833
Balance as at 31 December 2017	20,867	1,172	2,232	554,646	578,917

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Reserve	Description and purpose
Share capital	Amount subscribed for share capital
Warrants and share option reserve	Relates to possible increase in equity for options issued
Combined surplus	Cumulative earning from non-operational sources
Retained earnings (deficit)	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

The notes on pages 15 to 54 form part of the Financial Statements

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Consolidated statement of cash flows

	Note	Nine months ended	
		31 December 2017 CAD \$'000	31 December 2016 CAD \$'000
OPERATING ACTIVITIES			
Profit/(Loss) for the year before taxation		569	614,714
Items not involving cash:		-	-
Shares issued for services		15	131
Shares issued for accrued interest		-	-
Options issued		685	290
Options expired		(20)	-
Gain (loss) on sale of marketable securities		-	(4)
Fair value adjustment on marketable securities		-	40
Foreign exchange		68	61
Gain on business acquisition		-	(771,189)
Deferred taxation		-	153,044
Gain on conversion of convertible notes		-	-
Fair value adjustment on derivative liability		-	-
Depletion and depreciation		976	523
Impairment of property and equipment		-	2
Other expense		-	-
Finance expense		(64)	194
Change in working capital	18	546	285
Net cash used in operating activities		2,775	(1,909)
INVESTING ACTIVITIES			
Proceeds on sale of marketable securities		-	11
Cash on disposal of subsidiary		-	-
Investments in subsidiaries		(3,996)	-
Purchases of property, plant and equipment		(3,418)	(103)
Change in working capital	18	-	11
Net cash used in investing activities		(7,414)	(81)
FINANCING ACTIVITIES			
Repayment of notes payable		-	-
Proceeds from issue of shares, net of transaction costs		1,343	1,325
Proceeds from exercise of options	10	2,280	-
Proceeds from issue of bonds		-	191
Repayments of loans		(550)	-
Proceeds from loans		-	360
Net cash generated from financing activities		3,073	1,876
Net increase/(decrease) in cash		(1,566)	(114)
Foreign exchange effect on cash held in foreign currencies		-	(5)
Cash at beginning of nine-month period		3,924	138
Cash at end of nine-month period		2,358	19

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL INFORMATION

1. Corporate information

Corporate Information

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

Zenith was incorporated in accordance with the provisions of the British Columbia Business Corporations Act on September 20, 2007. The address of the Company’s registered office is 20th Floor, 250 Howe Street, Vancouver, BC. V6G 3R8, Canada and its business address is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Company’s activity is the international production of oil & gas, specifically, in Azerbaijan, where it operates the largest onshore oilfield in the country; in Italy, where the Company has a well-balanced portfolio of production and exploration assets producing natural gas, natural gas condensate and electricity; and formerly in Argentina, where Zenith’s operational activities were divested effective February 19, 2017. The Company's website is www.zenithenergy.ca.

Zenith is dual 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**”.

Basis of preparation

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

The financial information has been prepared under the historical cost conversion 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 Company’s business activities.

Presentation and functional currency

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

Functional currency is the currency of the primary economic environment in which a company operates. The functional currencies of the Company’s subsidiaries are; Argentine Pesos (“**ARS**”) for the Argentinian subsidiary (disposed of in February 2017), United States (“**US\$**”) dollars for the subsidiaries in the US (disposed of in February 2017) and British Virgin Islands (including Azerbaijan operations), Euros (“**EUR**”) for the subsidiary in Italy 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 Company entities usually generate and expend cash and in which business transactions are normally denominated.

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

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 Company's business activities, together with facts likely to affect its future operations and financial and liquidity positions are set out in the note 2 of the financial statements. In addition, note 22 to the financial statements discloses the Company's financial risk management policy and note 3 details further considerations made by the Director in respect of going concern.

The Directors, having made due and careful enquiry, are of the opinion that the Company has adequate working capital to execute its operations over the next 12 months. The Directors therefore have made an informed judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the financial statements.

2. New standards and interpretations not yet adopted

a) Adoption of new and revised standards

The following IFRSs or IFRIC interpretations were effective for the first time for the financial year beginning 1 April 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

standard / interpretation	
IFRS 11 (amendments)	Accounting for Acquisitions of Interests in Joint Operations
IAS 16 and IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 27 (amendments)	Equity method in separate financial statements
Annual Improvements to IFRSs: 2012-2014 Cycle	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting
IAS 1 (amendments)	Disclosure Initiative
IAS 12 (amendments)	Recognition of Deferred Tax Assets for Unrealised Losses

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

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

At the date of authorization of these financial statements, the Company 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	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 7 (amendments)	Disclosure Initiative	1 January 2017
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual Improvements to IFRSs: 2014-2016 Cycle	Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates	1 January 2017 (IFRS 12) / 1 January 2018 (IFRS 1 and IAS 28)
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, although they have yet to complete their impact assessment in relation to IFRS 9 and IFRS 15.

3. Significant accounting policies

Consolidation

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

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest</i>	<i>Principal activity</i>
Canoel Italia S.r.l.	Genova, Italy	98.6%	Gas, Electricity and Condensate production
Ingenieria Petrolera del Rio de la Plata S.r.l.	Argentina	100%	Oil Services

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest</i>	<i>Principal activity</i>
Zenith Aran Oil Company Limited	British Virgin Islands	100%	Oil production
Aran Oil Operating Company Limited	British Virgin Islands	80% owned subsidiary of Zenith Aran Oil Company Limited	Oil production
Altasol SA	Switzerland	100%	Oil Trading
Zena Drilling Limited	Dubai, UAE	100%	Oil services
Leonardo Energy Consulting S.r.l	Italy	48%	Business development in Central Asia and the Middle East

Subsidiaries are entities over which the Company has control. The Company 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 account policies used by them, with those used by the Company.

Business combinations

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

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

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

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Foreign currency translation

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

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

- 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 Company's exchange difference on translating foreign operations on the statement of comprehensive income and are reported as a separate component of shareholders' equity. These differences are recognised in profit or loss in the period in which the operation is disposed.

Cash

Cash consists of cash deposits in bank accounts and cash in hand.

Inventory

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

Property, plant and equipment

Development and production expenditures

Development and production ("D&P") assets include costs incurred in developing commercial reserves and bringing them into production, together with the exploration and evaluation ("E&E") expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Items of property, plant and equipment, including D&P assets, are carried at cost less accumulated depreciation and accumulated impairment losses.

When significant parts of an item of property, plant and equipment, including D&P assets, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including D&P assets, are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognised in profit or loss.

Subsequent costs

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

Depletion and depreciation

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

Office furniture and equipment

Office furniture and equipment is depreciated over the estimated useful lives of the assets on a declining balance basis of rates ranging from 10% to 30%. The Company assesses the method of depreciation, useful lives and residual values annually.

Impairment

At the end of each reporting period, the Company 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 Company makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

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

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

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

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

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

Decommissioning provision

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

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 passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognised as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalised within D&P assets. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Taxation

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

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

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

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

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 Company intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Non-derivative financial instruments

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

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred.

Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss, unless such instruments relate to investments in equity instruments that do not have a quoted market price in an active market and cannot be reliably measured in which case the investment is measured at cost. The Company has classified cash financial investments as fair value through profit or loss.

The carrying amount of cash approximates fair value due to its short term to maturity.

Other

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

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 25 (b).

Compound financial instruments

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

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

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

Impairment of financial assets

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

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

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

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 Company's option. Dividends on share capital classified as equity are recognised as distributions within equity. Non-equity share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the Consolidated Income Statement as a financial expense.

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

Share-based payments

The cost of providing share-based payments to employees is charged to the Statement of Comprehensive Income (or treated as a share issue cost) over the vesting period of the related share options or share allocations. The cost is based on the fair values of the options, and shares allocated determinate 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 Director or employees the consolidated statement of Comprehensive Income is charged with the fair value of the related good or service received.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Earnings per share

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

Revenue recognition

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

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

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

Finance income and expense

Finance income is recognised as it accrues in the consolidated statement of comprehensive income; using the effective interest method.

Finance expense is comprised of interest on debt, accretion of the decommissioning obligation, accretion of convertible notes, gains or losses on the fair value of the marketable securities, and other miscellaneous interest charges.

Leases

Payments made under operating leases are recognised as an expense in the consolidated statement of comprehensive income in accordance with the terms and conditions of the lease. Payments are charged on a straight-line basis over the term of the lease.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

4. Administrative Expenses

General and administrative expenses for the nine months ended December 31, 2017 are set out below, with a column included for the same period of 2016 for comparative purposes.

	Nine months ended December 31,	
	2017	2016
	CAD \$'000	CAD \$'000
Professional fees	1,139	1,663
<i>External Audit Remuneration fees</i>	27	-
<i>Legal fees</i>	258	311
<i>Accountancy fee</i>	125	115
<i>Consultancy</i>	387	715
<i>Website development</i>	24	-
<i>Other fees</i>	318	522
Office	337	237
<i>Office rental</i>	135	102
<i>Other expenses</i>	202	135
Administrative	412	279
<i>Administrative services</i>	297	120
<i>Other expenses</i>	115	159
Salaries and benefits	1,213	730
<i>Consulting fees</i>	211	137
<i>Salaries</i>	714	288
<i>Other expenses</i>	288	305
Travel	585	788
Capitalization of expenses	(2,724)	-
TOTAL	962	3,697

5. Finance expense

	Nine months ended December 31,	
	2017	2016
	CAD \$'000	CAD \$'000
Interest on borrowings	284	520
Accretion of decommissioning obligation	-	-
Accretion of convertible notes	-	-
Accretion of bonds	-	35
Change in estimate	(110)	-
Foreign exchange differences	(238)	15
Net finance expense from continuing operations	(64)	570

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

6. Taxation

The difference between income tax for the year and expected income taxes based on the statutory tax rate arises as follows:

	2017	2016
	CAD \$'000	CAD \$'000
Current tax	-	-
Deferred tax	2,398	153,927
Total tax (credit)/ charge for the period	2,398	153,928

The tax (credit) charge for the nine months ended December 31, 2017 comprised CAD \$nil (2016 – CAD \$Nil) of current tax expense and CAD \$2,398 deferred tax reduction (2016 – CAD \$153,297k deferred tax reduction).

The effective tax rate implicit in the above is 23.6%.

As at December 31, 2017, the Company has accumulated non-capital losses in Canada totalling CAD\$24,743k (2016 - CAD \$21,200k) which expire in varying amounts between 2028 and 2037 and CAD\$400k (2016 – CAD\$400k) of non-capital losses in Italy.

7. Property, plant and equipment

	D&P Assets
	CAD \$'000
Carrying amount at April 1, 2016	14,598
Additions	104
Acquisition (business combination)	1,052,765
Disposals	-
Depreciation	(523)
Impairment	-
Decommissioning obligation	(2)
Foreign exchange differences	(544)
Carrying amount at December 31, 2016	1,066,398
Carrying amount at April 1, 2017	1,072,993
Additions	3,418
Disposals	-
Depreciation	(668)
Impairment	-
Decommissioning obligation	-
Foreign exchange differences	-
Carrying amount at December 31, 2017	1,075,743

The Company did not identify any indicators of impairment at December 31, 2017 and 2016.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Business combination year 2016

Azerbaijan

On 26 January, 2016, the Company registered a branch of Zenith Aran Oil Company Limited, a 100% owned subsidiary of the Company, in Baku, Azerbaijan, to have an operating entity in Azerbaijan for the management of its Azerbaijan oil production assets.

Zenith Aran Oil Company Limited was already incorporated in the British Virgin Islands under the BVI Business Companies Act, 2004, on the November 27, 2015.

On March 16, 2016, the Company's wholly-owned subsidiary, Zenith Aran Oil Company Limited, entered into the REDPSA with SOCAR and SOA. The REDPSA covers 642 sq. kilometres which include the active Muradkhanli, Jafarli and Zardab oilfields located in the Lower Kura Region, approximately 300 kilometres inland from the capital city of Baku, in Azerbaijan (the "**Azerbaijan Operations**"). Pursuant to the terms of the REDPSA, the Company and SOA have the exclusive right to conduct petroleum operations from the Azerbaijani Operations, through a newly incorporated operating company, Aran Oil Operating Company Limited (the "**Aran Oil**"). Aran Oil, in which Zenith has an 80% interest, is the operator of the REDPSA, with the remaining 20% interest being held by SOA.

On June 24, 2016, the President of the Republic of Azerbaijan signed the REDPSA into law, following approval by Parliament on 14 June 2016. The delivery of the capital assets previously used in respect of the petroleum operations at the Azerbaijani Operations, from the previous operating company to Aran Oil, officially completed on August 11, 2016 ("**Handover**" or the "**Effective Date**"). Aran Oil now has operational control of the Azerbaijani Operations. The transfer of operational control did not involve any interruption of petroleum production operations at the Azerbaijani Operations.

As a part of the Handover, an inventory of equipment and material was prepared and the volumes of oil in the pipelines and tanks were recorded. Any revenues related to the existing oil as at the date of Handover were allocated to SOCAR.

The Handover involved the transfer of certain individuals employed by the current operator of the Azerbaijani Operations to Aran Oil. In accordance with the laws of Azerbaijan, the transfer process involved the relevant employees being dismissed by their previous employer (the outgoing operator of the Azerbaijani Operations) and entering into new employment contracts with Aran Oil. Any payments to the relevant employees arising as a result of their dismissal by the previous operating company were for the account of the previous operating company. In accordance with the laws of Azerbaijan, the relevant employees have been employed by Aran Oil with effect from the Effective Date. The form of these employment agreements follows the template prescribed by the Azerbaijani labour code.

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

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

The valuations of the Asset and of the liabilities have been based on the Net Present Value (“NPV”) of future cash flows included in the Competent Persons Report prepared on behalf of the Company by Chapman Petroleum Engineering Ltd. (“Chapman”) and published on June 15, 2016 (“Original CPR”), and in particular the financial and economic data from pages 93 to 128.

The acquisition of Assets has been brought to account as a business combination using the acquisition method of accounting and resulted in a bargain purchase arising as follows:

Fair value of net assets acquired CAD\$000’s	
D&P assets	1,052,765
Compensatory Oil*	(1,997)
Capital Costs*	(285,549)
Foreign Currency Translation	7,913
Decommissioning Obligations*	<u>(1,943)</u>
Gain on business combination	771,189
Taxation	<u>(153,044)</u>
Not NPV of the assets	618,145

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

D&P assets

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

Decommissioning provisions

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

On 15 June 2016, the day immediately following the acquisition date, the decommissioning obligation assumed was re-calculated using a long-term risk-free rate based on the expected timing of cash flows, in accordance with IAS 37 (“Provisions, Contingent Liabilities and Contingent Assets”). The result was a CAD \$1,943k increase in the decommissioning obligation associated with the acquired assets and the net result of the acquisition and recognition of decommissioning liability recognition being a gain of CAD \$711,189k measurement adjustment in the first quarter of year 2017 consolidated statement of income and comprehensive income using prevailing exchange rates.

8. Capitalised expenses

On August 24, 2016 the Company announced the beginning of oil production activities at a rate of approximately 300 barrels of oil per day in Azerbaijan. The milestone marked the successful completion of the handover process and the transfer of operatorship to Aran Oil Company Limited (“Aran Oil”). The Company holds an 80% interest in Aran Oil through its 100% owned subsidiary, Zenith Aran Oil Company Limited, (“Zenith Aran”).

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

The formal handover process largely encompassed the transfer and registration of assets, including infrastructure, oil facilities, oil service vehicles and oil wells in the name of Aran Oil.

Azerbaijan represents a significant opportunity the Company to produce significant quantities of oil and the Directors are strongly committed to achieving the long-term development of the Company. The support of the Government and SOCAR throughout the process of establishing the Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) has greatly assisted the Company establish its presence. Zenith will now seek to demonstrate its strengths as an operator in one of the largest and most successful oil and gas countries in the world. The Company's primary objective is to significantly increase the production of oil from the Muradkhanli, Zardab and Jafarli oilfields.

On January 11, 2017 the Company announced that its entire common share capital, consisting of 98,564,867 Common Shares, was admitted to the standard listing segment of the FCA Official List, and to trading on the London Stock Exchange's Main Market under the ticker symbol "ZEN".

To achieve these 2 important milestones, and for the development of its new internet website, the Company paid expenses that were clearly presented in past quarterly financial statements and capitalised during the nine months ended December 31, 2017 as follows:

	Azerbaijan	LSE Listing	Website Development
	Costs from Sept 2014 specific to Azerbaijan assets acquisition	All costs from March 2016 specific to LSE trading admission	All costs from 2017 specific to LSE trading admission
Total Consulting	633	147	24
Total Travel	36	455	-
Total Legal	38	847	-
Total Accounting and bookkeeping	-	108	-
Total LSE Listing	-	436	-
TOTAL (CAD\$'000)	707	1,993	24

Capitalised Expenses	CAD \$'000
Carrying amount as at April 1, 2017	-
Additions	2,724
Depreciation	(346)
Foreign exchange differences	-
Carrying amount as at December 31, 2017	2,378

9. Other financial assets

Upon the change of ownership of assets acquired in Italy during 2016, the Company obtained an insurance policy for its Italian oil and gas operations. The policy has a five-year term for which the Company paid the total premium of EUR 567k (CAD\$868k), of which CAD\$nil (2016 – CAD\$180k) has been recognised as an expense. The outstanding balance of CAD\$353k (December 31, 2016 – CAD\$3537k) is now included in long-term assets. During the year 2016 the Company received the news that the insurance company was in default. The Directors decided to not expense the monthly instalment on the prepaid insurance, pending reimbursement promised by the State of Romania, where the insurance company was based.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

10. Share Capital

Zenith is authorised to issue an unlimited number of common shares, of which 144,200,119 were in issue as at December 31, 2017 (by comparison 64,574,153 common shares were in issue as at December 31, 2016). Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of these financial statements.

The Company's common shares are fully paid and are of no par value.

Issued	Number of common shares	Amount CAD \$'000
Balance – 31 March 2016	43,594,406	9,578
Non-brokered unit private placement (i)	6,674,775	534
Finder's fee	-	(27)
Non-brokered unit private placement (ii)	3,892,875	311
Finder's fee	-	(15)
Conversion of convertible notes (iii)	2,730,000	300
Settlement of debt (iii)	312,500	31
Non-brokered unit private placement (iv)	1,519,250	122
Finder's fee	-	(6)
Balance – 30 September 2016	58,723,806	10,828
Non-brokered unit private placement (v)	1,906,050	191
Finder's fee	-	(10)
Settlement of debt (vi)	1,049,235	88
Non-brokered unit private placement (vii)	2,745,062	329
Finder's fee	-	(4)
Settlement of debt (viii)	150,000	12
Balance – 31 December 2016	64,574,153	11,434
Admission LSE placement (ix)	33,322,143	3,783
Fair value of warrants issued	-	(77)
Finder's fee	-	(200)
Settlement of debt (x)	668,571	78
Non-brokered unit private placement (xi)	9,000,000	1,399
Finder's fee	-	(70)
Conversion of convertible notes (xii)	3,700,000	407
Settlement of debt (xiii)	505,263	72
Conversion of convertible notes (xiv)	1,637,100	164
Conversion of convertible notes (xv)	2,170,000	239
Balance – 31 March 2017	115,577,230	17,229
Exercise of stock option (xvi)	1,000,000	-
Exercise of warrants (xvii)	1,019,250	153
Balance – 30 June 2017	117,596,480	17,382
Non-brokered unit private placement (xviii)	3,533,333	438
Finder's fee	-	(22)
Non-brokered unit private placement (xix)	2,666,667	328
Finder's fee	-	(16)

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Non-brokered unit private placement (xx)	666,666	82
Finder's fee	-	(4)
Non-brokered unit private placement (xxi)	3,600,000	404
Finder's fee	-	(20)
Exercise of stock option (xxii)	1,000,000	-
Settlement of debt (xxiii)	111,131	15
Balance – 30 September 2017	129,174,277	18,587
Exercise of warrants (xxiv)	2,049,775	307
Exercise of warrants (xxv)	1,257,875	189
Exercise of warrants (xxvi)	1,306,050	261
Exercise of warrants (xxvii)	500,000	75
Exercise of warrants (xxviii)	1,612,142	322
Exercise of warrants (xxix)	3,150,000	473
Exercise of stock option (xxx)	2,000,000	200
Exercise of warrants (xxxi)	400,000	80
Exercise of stock option (xxxii)	1,000,000	150
Exercise of stock option (xxxiii)	1,650,000	203
Exercise of warrants (xxxiii)	100,000	20
Balance – 31 December 2017	144,200,119	20,867

- i) On April 11, 2016 the Company completed a private placement for the issue of 6,674,775 common shares at CAD\$0.08 per unit for gross proceeds of CAD\$534k. Of the 6,674,775 common shares, 5,000,000 shares were issued forming part of a unit comprising one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD\$0.15 per common share for a period of 24 months from the date of issuance. The remaining 1,674,775 shares were not issued with accompanying warrants. Zenith also paid aggregate finders' fees of CAD\$27k.
- ii) On April 21, 2016, the Company completed a private placement for the issue of 3,892,875 shares at a price of CAD\$0.08 per unit raising gross proceeds of CAD\$311k. Each unit is comprised of one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD\$0.15 per common share for a period of 24 months from the date of issuance. Zenith also paid aggregate finder's fees of CAD\$15k and issued 179,712 warrants to certain arm's-length parties in the connection with the Private Placement.
- iii) On June 9, 2016, the Company issued 2,730,000 common shares at a deemed price of CAD\$0.11 per share in partial conversion of convertible notes CAD\$300k (Note 10), and 312,500 common shares at a price of CAD\$0.10 per share to creditors of the Company to settle debts totaling CAD\$31k.
- iv) On June 16, 2016 the Company completed a non-brokered private placement for the issue of 1,519,250 common shares at a price of CAD\$0.08 per unit with aggregate gross proceeds of CAD\$122k. Each unit is comprised of one common share and one common share purchase warrant. Each Warrant will be exercisable for one Common Share at a price of CAD\$0.15 per share for a period of 24 months from the date of closing of the offering. Zenith also paid aggregate finder's fees of CAD\$6k.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

- v) On October 10, 2016 the Company completed a non-brokered private placement for the issue of 1,906,050 common shares at a price of CAD\$0.10 per unit with aggregate gross proceeds of CAD\$191k. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant will be exercisable for one common share at a price of CAD\$0.20 per share for a period of 24 months from the date of issue. Zenith also paid aggregate finder's fees of CAD\$10k.
- vi) On October 19, 2016, the Company issued 724,235 common shares at a deemed price of CAD\$0.085 per common share to certain debtholders and creditors of the Company to settle debts owing by Zenith, representing an aggregate of CAD\$62k. In addition, the Company issued 325,000 common shares at a deemed price of CAD\$0.08 per share, to a service provider in settlement of debt, representing an aggregate of CAD\$26k.
- vii) On November 7, 2016, the Company closed a non-brokered private placement for the issue of 2,745,062 common shares at a price of CAD\$0.12 per unit with aggregate gross proceeds of CAD\$329k. Insiders of the Company subscribed for an aggregate of 2,195,475 units for aggregate subscription proceeds of CAD\$263k. Each common share purchase warrant will be exercisable for one Common Share at a price of CAD\$0.20 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD\$4k.
- viii) On November 30, 2016, the Company issued 150,000 common shares to certain debtholders and creditors of the Company (based on a price of CAD\$0.08 per share Common Share) in settlement of a debt of £7k (inclusive of accrued interest) owing by the Company in respect of services.
- ix) On January 5, 2017 - The Company announced that the Prospectus (the "**Prospectus**") dated January 5, 2017 had been approved by the UK Listing Authority. The Prospectus relates to the admission of the Company' entire common share capital at that date to the standard listing segment of the FCA Official List, and to trading on the London Stock Exchange's Main Market ("**Admission**"). Admission and commencement of dealings in the Company's common shares began on January 11, 2017.

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

- x) On January 11, 2017 the Company issued 668,571 shares, at a deemed price of £0.07 per share, for the settlement of a debt for services of a senior manager of the Company, for an amount of £47k (\$78).
- xi) On January 30, 2017, the Company entered into an agreement to proceed with a brokered private placement (the "**Private Placement**") to raise gross proceeds of £855k (approximately CAD\$1,399k) through the issue of nine million common shares of the Company at a price of £0.095 (approximately CAD\$ 0.1565) per share. In addition to the new common shares, under the Private Placement each subscriber received one warrant (the "Warrant") for every New Common Share purchased. Each Warrant shall entitle the Warrant holder to subscribe for new Common Shares in the Company at a price of £0.15 per common share (approximately CAD\$0.247), exercisable at any time until 1 February 2019. Zenith also paid aggregate finder's fees of CAD\$70k.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

- xii) On January 30, 2017 the Company completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 3,700,000 common shares of Zenith with an aggregate value of CDN\$407k (approximately £247k). The terms of this conversion were comprehensively outlined in the Prospectus issued by the Company on January 2017, stating that the conversion mechanism requires a conversion price of CAD\$0.11 (£0.0677).
- xiii) On March 14, 2017 the Company issued 505,263 common shares in the capital of the Company at a deemed price of CAD\$0.1425 per Common Share, to settle certain debts owing by the Company. The Company further confirms that the debts have been fully paid, with the balance being settled in cash. The common shares issued pursuant to the Share Settlement are subject to a four-month hold period.
- xiv) On March 21, 2017 Gunsynd Plc. elected to fully convert its £100k principal amount unsecured convertible note into common shares of the Company at the conversion price of CAD\$0.10, as outlined in the Company's prospectus published in January 2017. Upon conversion of the Convertible Note 1,637,100 common shares were issued to Gunsynd. This fully extinguishes Zenith's convertible debt denominated in British Pound Sterling.
- xv) On March 21, 2017 the Company completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 2,170,000 common shares of Zenith with an aggregate value of CAD\$239k (approximately £143k). The terms of the conversion were comprehensively outlined in the Prospectus issued by the Company on January 11, 2017, stating that the conversion mechanism requires a conversion price of CAD\$0.11 (£0.06588).
- xvi) On May 25, 2017 the Company announced that, following its announcement on February 22, 2017 in relation to a Director of the Company exercising stock options to acquire 1,000,000 new common shares in the capital of the Company, the option shares had been issued on May 23, 2017 following confirmation by Mr. Regis Milano of the custodian to whom they should be issued.
- xvii) On June 29, 2017 an investor in the Company exercised warrants to acquire 1,019,250 new common shares of no par value in the capital of the Company. The exercise price of the warrants was CAD\$0.15 per share, and the total consideration received CAD\$153k (approximately £91k).
- xviii) On July 14, 2017, the Company closed a non-brokered private placement of 3,533,333 common shares at a price of CAD\$0.123956 per share for aggregate gross proceeds of CAD\$438k (approximately £265k). The Company also paid aggregate finder's fees of CAD\$22k (approximately £13k).

On August 2, 2017, the Company completed a non-brokered private placement issuing 2,666,667 Common Shares at a price of CAD \$0.1230606 per unit for aggregate gross proceeds of CAD\$328k (approximately £200k). The Company also paid aggregate finder's fees of CAD\$16k (approximately £10k). The proceeds of the private placement provided additional funding for Zenith's field development operations in Azerbaijan.
- xix) On August 2, 2017, the Company completed a non-brokered private placement of 666,666 Common Shares at a price of CAD\$0.1230606 per unit for aggregate gross proceeds of CAD\$82k (approximately £50k). The Company also paid aggregate finder's fees of CAD\$4k (approximately £2.5k). The proceeds of the private placement provided additional funding for Zenith's field development operations in Azerbaijan.
- xx) On September 11, 2017, the Company closed a non-brokered private placement of 3,600,000 common shares at a price of CAD\$0.11 per unit for aggregate gross proceeds of CAD\$404k (approximately £252k). The Company also paid aggregate finder's fees of CAD\$20k (approximately £13k).

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

The proceeds of the private placement provided additional funding for Zenith's field development operations in Azerbaijan.

- xxi) On September 27, 2017, the Company announced that a Director of Zenith had exercised part of his stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD\$0.10 per Common Share and a total cost of CAD\$100,000 (approximately £60k).
- xxii) On September 28, 2017 the Company announced that a Director of the Company, in accordance with TSX Venture Exchange rules, had swapped part of his salary for the first two quarters of the 2018 financial year for the equivalent of CAD\$2.5K per months, for a total of CAD\$15k (approximately £9k). As a result, the Director will receive 111,131 common shares in the capital of the Company at an average price of approximately CAD\$0.14 for the period April 1, 2017 until December 31, 2017.
- xxiii) On October 12, 2017 an investor in the Company exercised warrants to acquire 2,049,775 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received was CAD\$307k (approximately £186k).
- xxiv) On October 19, 2017 an investor in the Company exercised warrants to acquire 1,257,875 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received was CAD\$189k (approximately £114k).
- xxv) On October 23, 2017 an investor in the Company exercised warrants to acquire 1,306,050 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.20 per share, and the total consideration received was CAD\$261k (approximately £160k).
- xxvi) On November 2, 2017 an investor in the Company exercised warrants to acquire 500,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received was CAD\$75k (approximately £44k).
- xxvii) On November 8, 2017 an investor in the Company exercised warrants to acquire 1,612,142 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.20 per share, and the total consideration received CAD\$322k (approximately £195k).
- xxviii) On November 22, 2017 an investor in the Company exercised warrants to acquire 3,150,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received CAD\$473k (approximately £284k).
- xxix) On November 23, 2017 a Director of the Company exercised stock options to acquire 2,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.10 per share, and the total consideration received CAD\$200k (approximately £118k).
- xxx) On December 11, 2017 an investor in the Company exercised warrants to acquire 400,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.20 per share, and the total consideration received CAD\$80k (approximately £47k).
- xxxi) On December 15, 2017 a Director of the Company exercised stock options to acquire 1,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD\$0.15 per share, and the total consideration received CAD\$150k (approximately £87k).
- xxxii) On December 18, 2017 the Company announced that a Director of the Company had exercised stock options to acquire 500,000 new common shares of no par value in the capital of the Company at an exercise price of CAD\$0.10 per stock option (approximately £0.06) at a total cost of CAD\$50,000 (£30k).

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

of stock options was CAD\$152,000 (approximately £91k).

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

11. Warrants and Options

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD \$'000
Balance – 31 March 2016	-	29,638,898	0.23	1,510
Unit private placements	-	12,591,612	0.15	-
Unit private placements	-	4,651,112	0.20	-
Unit private placements	-	1,114,286	0.11	77
Unit private placements	-	9,000,000	0.24	-
Options issued	6,000,000	-	0.10	290
Options exercised	(1,000,000)	-	0.10	-
Balance – 31 March 2017	5,000,000	56,995,908	0.21	1,877
Options issued	2,750,000	-	0.15	200
Options exercised	-	(1,019,250)	0.15	(153)
Expired	-	(7,533,830)	(0.25)	(220)
Balance – 30 June 2017	7,750,000	48,442,828	0.20	1,704
Options issued	-	-	-	-
Options exercised	(1,000,000)	-	0.15	(33)
Expired	-	(1,293,334)	(0.25)	(38)
Balance – 30 September 2017	6,750,000	47,149,494	0.20	1,633
Options issued	2,000,000	-	0.18	35
Options exercised	(4,650,000)	(10,375,842)	(0.25)	(413)
Expired	-	(3,329,999)	(0.25)	(83)
Balance – 31 December 2017	4,100,000	33,449,653	0.20	1,172

As at December 31, 2017, the Company had 33,449,653 warrants outstanding (relating to 33,449,653 shares) and exercisable at a weighted average exercise price of CAD\$0.20 per share with a weighted average life remaining of 0.625 years. 1,629,859 warrants to subscribe for common shares in the Company at a price of CAD\$0.25 per common share expired during January 2018. 3,124,400 warrants to subscribe for common shares in the Company at a price of CAD\$0.25 per common share expired during February 2018.

On January 24, 2018 the Company completed a placing in the UK to raise gross proceeds of £678k (approximately CAD\$1,158k) by issuing 9,000,000 common shares of no par value in the capital of the Company. The Company, under the terms of the Placing, issued 180,000 broker warrants in the Company, priced at £0.0925, with an expiry date of two years from Admission.

12. Financial assets at fair value through profit or loss

(a) Equity securities

The fair value of equity securities is based on their current bid prices in an active market.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Equity securities	Nine months ended December 31	
	2017	2016
	CAD \$'000	CAD \$'000
As at 1 April	-	34
Sale	-	(8)
Gain on sale	-	(3)
FV movement	-	(24)
Foreign exchange	-	1
As at 31 December	-	-

The Company disposed of all of the above shares for gross cash proceeds of CAD\$11k in July 2016 recognising a \$3k gain on disposal and a \$1k loss on foreign exchange.

13. Loans and Notes payable

Loans and Notes payable	Nine months ended December 31	
	2017	2016
	CAD \$'000	CAD \$'000
Loan payable – current	2,771	1,946
Loan payable – non-current	2,339	2,376
Total	5,110	4,322

(a) Notes payable

Notes payable	Nine months ended December 31	
	2017	2016
	CAD \$'000	CAD \$'000
As at 1 April	-	83
Loan receipt	-	-
Change adjustment	-	-
Interest	-	-
Repayment	-	(83)
As at 31 December	-	-

(b) Borrowings

Loans – current	Nine months ended December 31	
	2017	2016
	CAD \$'000	CAD \$'000
As at 1 April	973	3,210
Loan receipt	135	236
Transfer between current / non-current	2,085	(1,702)
Repayments	(550)	(217)
Interest	284	353
Foreign exchange	(156)	66
As at 31 December	2,711	1,946

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

	Nine months ended December 31	
	2017	2016
	CAD \$'000	CAD \$'000
Loans – non current		
As at 1 April	4,527	674
Loan receipt	-	-
Transfer between current / non-current	(2,085)	1,702
Interest	-	-
Repayment	-	-
Foreign exchange	(103)	-
As at 31 December	2,380	2,376

a) US\$ loan payable

As at March 31, 2017, the Company was indebted to a third-party lender for a US\$1,485k (CAD\$1,848k) loan payable, bearing fixed interest at 10% per annum.

The President, Chief Executive Officer and Director of the Company, has provided a personal guarantee to the lender in respect of the repayment of the US\$ loan by the Company and the final payment of approximately US\$1,485k is repayable on April 30, 2018.

As at December 31, 2017, CAD\$1,860k (December 31, 2016 – CAD\$2,000k) of principal is classified as a current liability and CAD\$488k (December 31, 2016 – CAD\$315k) of accrued interest is included in trades and other payables.

b) Euro bank debt (Italy)

On August 6, 2015, the Company obtained a €220k loan (CAD\$316k) from GBM Banca of Rome. The loan is unsecured, guaranteed by Mediocredito Centrale and bears fixed interest at 7% per annum and is repayable in 60 monthly payments of principal and interest until August 6, 2020.

As at December 31, 2017 the principal balance of the loan was €138k (CAD\$206k) of which \$68k is classified as a current liability and \$138k is classified as non-current.

In November 2017 the repayment terms for the Euro Bank loan with GBM Banca of Rome, with an original value of €220k, were amended and the balance of the loan is now repayable in 60 months. The payments of the principal and interest will run on a monthly basis until October 2022.

c) Euro bank debt (Italy)

On December 17, 2015, the Company obtained a €200k loan (CAD\$302k) from Credito Valtellinese Banca of Tortona. The loan is unsecured, guaranteed by Mediocredito Centrale and bears fixed interest at 4.5% per annum and is repayable in 42 monthly payments of principal and interest until July 17, 2019.

As at December 31, 2017 the principal balance of the loan was €94k (CAD\$140k) of which \$92k is classified as a current liability and \$48k is classified as non-current.

d) Euro loan payable (Italy)

On October 1, 2015, the Company acquired a cogeneration plant from a third party of which €401k (CAD\$595k) of the purchase price was in the form of a loan from the seller. The loan is secured by the co-generation plant and bears interest at 3.5% and is repayable in 30 monthly payments of principal and interest until March 31, 2018.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

As at December 31, 2017, the principal balance of the loan was €56k (CAD\$84k) of which \$84k is classified as a current liability.

e) US\$320,000 General Line of Credit Agreement (Azerbaijan)

On April 5, 2017, the Company'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\$416k), for industrial and production purposes. The credit line was drawn down in a single tranche and as at April 6, 2017 it was fully drawn down. Rabitabank can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown, or if the REDPSA is rescinded.

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

On July 6, 2017, the terms of the repayment of the US\$320k (CAD\$416k) Credit Agreement were amended and the first repayment of the principal of US\$80k was postponed to the end of July.

On July 31, 2017 US\$20k (CAD\$21k) was repaid and the balance of US\$60k (CAD\$63k) was agreed to be repaid on September 1, 2017. A subsequent credit committee decision taken in September 2017 amended the payment terms of the loan. The Company will pay interest on monthly basis and the principal total amount of US\$20k has been paid on December 6, 2017. The balance of the principal amount (US\$280k) will be repaid at a new maturity date of April 6, 2018.

As of December 31, 2017, the outstanding principal amount of US\$280k (CAD\$350k) is classified as a current liability.

f) US\$200,000 General Line of Credit Agreement (Azerbaijan)

On April 12, 2017, Zenith Aran Oil Company Limited entered into a general line of credit agreement with Rabitabank up to US\$200k (CAD\$260). This Credit Agreement bears interest at a rate of 10% per annum. The loan granted for one-year period and the principal amount of the loan will be paid at the end of the period. The amount of interest is paid monthly. The loan is guaranteed by the Company.

As of December 31, 2017, the amount of US\$200k (CAD\$250) plus accrued interest was still outstanding. It is classified as a current liability.

g) Swiss loan CHF 837,500 (Switzerland)

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

As at December 31, 2017 the principal balance of the loan was CHF734k (CAD\$941k) of which CAD \$67k is classified as a current liability and CAD\$874k is classified as non-current.

h) Swiss loan CHF 1,000,000 (Switzerland)

On March 30, 2017 the Company acquired a company incorporated in Switzerland, Altasol SA, and assumed a loan subscribed by the former owner on December 21, 2015 for the initial amount of CHF1,000k (CAD\$1,280k). The loan bears interest at a rate of 2.2% per annum. The loan is repayable on July 02, 2019 (plus accrued interest). As at December 31, 2017 the principal balance of the loan was CHF1,000k (CAD\$1,279k) and is classified as a non-current liability.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

14. Convertible loans

Loans and Notes payable	Nine months ended December 31,	
	2017 CAD \$'000	2016 CAD \$'000
Bond – non-current	-	583
Bond – non-current	381	-
Convertible Notes – current	-	-
Convertible Notes – non-current	-	726
Notes payable - current	-	214
Total	381	1,523

BOND	Nine months ended December 31,	
	2017 CAD \$'000	2016 CAD \$'000
Balance – April 1	385	563
Interest	-	37
Accretion	-	5
Conversion	-	-
Repayments	-	-
Foreign currency translation	(4)	(51)
Balance – December 31	381	554

The bonds bear interest at 12% per annum, payable quarterly, until the maturity date (May 1, 2018), 36 months from the date of issuance (May 1, 2015), at which time the principal amount of bonds is repayable in full.

Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of \$0.25 per share for a period of 36 months from the date of issuance. In connection with the private placement, the Company paid finder's fees of £11.25k (CAD\$21k) and granted 67,500 finder's warrants exercisable at CAD\$0.25 until for a period of 36 months from the date of issuance.

The grant date weighted average fair value of warrants was CAD\$0.03 per warrant (CAD\$51) estimated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	75%
Expected life	3 years
Dividends	Nil

As of December 31, 2017, the outstanding accrued bond interest was CAD\$10k.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Convertible Notes

	Debt component CAD\$'000	Derivative liability CAD\$'000	Face value CAD\$'000
Balance – 01 April 2016	697	358	731
Modification	-	-	-
Conversion	(275)	(25)	(300)
Change in fair value	-	39	-
New subscriptions	141	27	167
Foreign exchange	(37)	-	(19)
Balance – 31 December 2016	526	399	579

	Debt component CAD \$'000	Derivative liability CAD \$'000	Face value CAD \$'000
Balance – 31 March 2016	-	-	-
New subscriptions	-	-	-
Conversion	-	-	-
Change in fair value	-	-	-
Accretion	-	-	-
Foreign exchange	-	-	-
Balance – 31 December 2017	-	-	-

- On July 7, 2015, the Company amended the terms of the convertible notes whereby the conversion price was reduced from CAD\$0.215 per share to CAD\$0.125 per share and the rate of interest was reduced from 9% to 5%. The amended conversion price was based on the July 7, 2015 closing market price of the Company's common shares. The effect of the amendments was not a substantial modification resulting in the de-recognition of the original liability and the recognition of a new liability. The reduction of the interest rate has been accounted for as a modification of the effective interest rate and amortised cost of the debt component and the reduction of the conversion price 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 CAD\$231k on the date of modification.
- On 28 August 2015, CHF 80k Swiss Francs (CAD\$111k) principal number of convertible notes were converted into 882,640 common shares resulting in the revaluation of the derivative liability component at its fair value of CAD\$23k and the recognition of a CAD\$13k gain on conversion of convertible notes in the consolidated statement of loss and comprehensive loss for the year ended March 31, 2016.
- In June 2016, the Company issued 2,730,000 common shares following the conversion of CHF225k (CAD\$300k) principal number of convertible notes (Note 10).
- On November 28, 2016, the Company formalised the agreement it had reached for the amendment of the terms of its 5% convertible notes. The proposed amendments to the notes included an extension of two years to the maturity date from January 11, 2017 to January 11, 2019, a reduction to the conversion price from CAD\$0.125 per common share to CAD\$0.11 per common shares and a reduction in the interest rate payable by the Company from 5% to 1% for the remainder of the term. The proposed extension to the notes, and the reduction in the conversion price and interest rate, remains subject to the approval of the TSX Venture Exchange.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

- On January 25, 2017 the Company issued 3,700,000 common shares for the conversion of CHF311k (CAD\$407k) principal number of convertible notes.
- On March 21, 2017 the Company completed a further conversion of convertible notes denominated in CHF (Swiss Franc), issuing an amount of 2,170,000 Common Shares of Zenith with an aggregate value of CAD\$239k (£143k). As at December 31, 2017 there was CHF75k of accrued interest owing.

NOTES PAYABLE

Notes payable	9 months ended	
	31 December 2017 CAD\$000's	31 December 2016 CAD\$000's
As of 01 April	-	-
Addition	-	199
Warrants	-	-
Finder's fees	-	-
Interests	-	4
Accretion	-	-
Foreign currency translation	-	9
As of 31 December	-	214

As at December 31, 2017, the Company had CAD\$nil (31 December 2016 – US\$154k (CAD\$214k) of notes payable.

The notes payable was issued on July 15, 2016 by the Company's Argentinean subsidiary Petrolera Patagonia SRL ("PP SRL"), bearing interest at a fixed rate of 4% per annum and a repayment date of December 12, 2016. The bonds were not secured over any of the assets owned by PP SRL and PP SRL has the option to roll over the bond for a further 180 days.

Disposal of assets in Argentina

On February 20, 2017, Zenith announced the divestment of its operations in Argentina to a group of local energy investors. This decision was taken in light of a challenging operational environment, primarily resultant from the interruption of the Company's oil production activities due to the collapse of a major oil storage tank owned by YPF (Argentina's national oil company) in the vicinity of the Company's former assets in Argentina. This event was beyond the Company's control and caused a major environmental disaster and meant the Company could no longer transport its oil production via YPF pipelines.

The sale of the Company's Argentina subsidiary was fixed at a nominal sum in recognition of the costs that the new operator was expected to incur in order to resume production from the Don Ernesto and Don Alberto oilfields. In addition, as part of the agreement, Zenith was released from any liabilities relating to environmental responsibilities or future well abandonment obligations for these assets.

The divestment of the Company's operations in Argentina has enabled Zenith's management to more

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

effectively direct its attention towards the development of its Italian operations and especially towards Azerbaijan, where the Company's most important assets are located. This operational realignment reflects the Board's aversion to operational overstretch, and the Company's preference for a strong, undistracted focus towards the achievement of its production objectives in Azerbaijan.

15. Deferred consideration payable

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

Compensatory oil

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

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

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

Capital Costs

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

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

Between 2017 and 2020, the Company plans to workover a total of 44 existing wells in Azerbaijan which are currently inactive or produce at low rates (< 5 STB/d) to bring rates up to 10 to 15 STB/d per well using improved technology, non-damaging fluids and optimized treatments. It is estimated that 10 wells will be worked over in 2017, 11 wells in 2018, 15 wells in 2019 and 8 wells in 2020.

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

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

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

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

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

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

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

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

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

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

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

DEFERRED CONSIDERATION PAYABLE	December 31, 2017	December 31, 2016
	CAD\$'000	CAD\$'000
Compensatory Oil		
Current portion	138	28
Non-Current portion	5,739	1,969
Capital costs		
Current portion	302	474
Non-Current portion	478,295	287,075
As of 31 December	484,474	287,546
Deferred Consideration payable		
current	440	502
Deferred Consideration payable non-current	484,034	287,044
Total	484,474	287,546

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 25 (b).

16. Decommissioning obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's oil and gas assets (CAD\$'000):

	2017	2016
	CAD \$'000	CAD \$'000
Balance – 1 April	7,980	7,897
Business combination	-	1,943
Writeback on disposal of subsidiaries	-	-
Measurement adjustment	-	-
Change in estimate	-	-
Accretion	-	128
Foreign currency translation	-	(264)
Balance – 31 December	7,980	9,704

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:

	2017	2016
Undiscounted cash flows – uninflated	CAD \$8 million	CAD \$17 million
Undiscounted cash flows - inflated	CAD \$8 million	CAD \$1,223 million
Risk free rate	3.4%	35.2%
Inflation rate	1.4%	25.4%
Expected timing of cash flows	15.5 years	16-20 years

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

17. Staff cost

(a) *Employee compensation cost*

During December 2017, the Company had an average number of 212 full time employees.

The following table details the amounts of total employee compensation included in the statement of comprehensive income:

	Nine months ended 31 December	
	2017	2012
	CAD \$'000	CAD \$'000
Operating	1,120	580
General and administrative	714	288
Total employee compensation cost	1,834	868

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

18. Change in working capital

	Nine months ended 31 December	
	2017	2016
	CAD \$'000	CAD \$'000
Trade and other receivables	(212)	(1,285)
Inventory	(158)	(288)
Prepaid expenses	(10)	80
Prepaid property and equipment insurance	(19)	39
Trade and other payables	945	1,750
Total change in working capital	546	296

19. Inventory

As at December 31, 2017 the inventory consists of CAD\$280k of crude oil that has been produced but not yet sold, and CAD\$12k of materials (2016 – CAD\$190k crude oil and CAD\$132 materials).

	Nine months ended 31 December			
	2017		2016	
	Barrels	CAD \$'000	Barrels	CAD \$'000
Argentina	-	-	2,462	184
Azerbaijan	5,412	280	189	6
Azerbaijan – materials	-	16	-	132
	5,412	296	2,651	322

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

20. Earnings per share:

	Nine months ended 31 December	
	2017	2016
	CAD \$'000	CAD \$'000
Net profit (loss)	637	606,285
Basic weighted average number of shares ('000)	136,853	58,619
Potential dilutive effect on shares issuable under warrants ('000)	33,450	45,628
Potential diluted weighted average number of shares ('000)	170,303	104,247
Net Profit (loss) per share – basic (1) \$	0.01	\$ 10.59
Net Profit (loss) per share – diluted	0.01	5.90
Net Profit (loss) per share continuing operations – basic \$	0.01	\$ 10.59
Net Profit (loss) per share continuing operations – diluted	0.01	5.90

⁽¹⁾ The Company did not have any in-the-money convertible notes, warrants and stock options during the years ended December 31, 2017 and 2016. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

21. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognised at fair value. Related party transactions during the three and nine months ended December 31, 2017 and 2016 not disclosed elsewhere in these consolidated financial statements are as follows:

- a) Included in trade and other payables is CAD\$ nil (2016 – CAD\$37k) due to a Director of the Company in respect of general and administrative expenditures made on behalf of the Company for which the director will be reimbursed.
- b) Included in trade and other payables is CAD\$252k (2016 – CAD\$nil) due a Director of the Company in respect of salaries.
- c) Mr. Andrea Cattaneo, Chief Executive Officer and President of the Company, has granted personal bank guarantees in favour of Zenith Energy Ltd., (the "**Guarantees**"), currently totaling the amount of US\$2,005k, as listed below:
 - Surety guarantee provided on August 29, 2016 in favor of Jiu Feng Investment Hong Kong Limited for the total amount of US\$2,185k in the month of February 2017 the total amount of the guarantee decreased to US\$1,485k, as the Company repaid part of the debt, (ref: US\$ loan payable, as stated on page 37 of the Company's Financial Statements as of December 31, 2017)
 - Surety guarantee provided on March 1, 2017 in favour of Rabitabank in Azerbaijan for the total amount of US\$520k (Ref.: US\$320k General Line of Credit Agreement (Azerbaijan) and US\$200k General Line of Credit Agreement (Azerbaijan), as stated on page 38 of the Financial Statements)

An annual compensation fee for the Guarantees is provided by the Company to Mr. Andrea Cattaneo.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

- d) During the nine months ended December 31, 2017 a Director of Zenith, Mr. Andrea Cattaneo, has exercised his stock options, to purchase common shares in the capital of the Company, as follows:
- On September 27, 2017 exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD\$0.10 per Common Share and a total cost of CAD\$100k (approximately £60k);
 - On November 23, 2017 exercised stock options to purchase 2,000,000 common shares in the capital of the Company at a price of CAD\$0.10 per common share and a total cost of CAD\$200k (£118k);
 - On December 15, 2017 exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD\$0.15 per common share and a total cost of CAD\$150k (approximately £87k).
- e) On September 28, 2017 the Company announced that a Director of Zenith, Mr. Andrea Cattaneo, had, in accordance with TSX Venture Exchange rules, in part swapped his salary for the first two quarters of the 2018 financial year for the equivalent of CAD\$2.5K per months, for a total of CAD\$15k (approximately £9k). As a result, Mr. Andrea Cattaneo received 111,131 common shares in the capital of the Company at an average price of approximately CAD\$0.14 per share, for the period April 1, 2017 until December 31, 2017.
- f) During the nine months ended December 31, 2017 a Director of Zenith, Mr. Andrea Cattaneo, purchased a total amount of 2,050,000 common shares of no par value in the capital of the Company at an average price of CAD\$0.1416 per common share (approximately £0.08488k), and a total amount of CAD\$313k (approximately£185k).
- g) During the nine months ended December 31, 2017 a Director of Zenith, Mr. Andrea Cattaneo, sold 1,250,000 common shares of no par value in the capital of the Company and transferred a total of 2,868,500 common shares of no par value in the capital of the Company, to certain financial advisers for services rendered to Mr. Cattaneo. These transactions, for the total amount of no. 4,118,500 common shares, were carried out at an average price of CAD\$0.1416 per common share (approximately £0.08488k), and a total amount of CAD\$313k (approximately£185k).

As of December 31, 2017 Mr., Andrea Cattaneo has a direct beneficial interest in a total of 3,670,116 common shares in the capital of the Company.

22. Financial risk management

	Nine months ended 31 December	
	2017	2016
Financial Assets	CAD\$'000	CAD\$'000
Trade and other receivables	1,912	1,956
Cash and cash equivalents	2,358	315
Financial instruments at fair value through profit or loss	-	-
Total financial assets	4,270	2,271

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

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

The Company 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.

The Company's policy is to maintain an appropriate financial position to sustain future development of the business. There were no changes to the Company's capital management approach until the nine months ended December 31, 2017.

The Company'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.

The Company's principal financial instruments are cash, deposits and assets held for sale. These instruments are only for the purpose of meeting Zenith's operational requirements.

The Company'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 counterparty to a financial instrument fails to meet its commercial obligations. The Company's maximum credit risk exposure is limited to the carrying amount cash of CAD\$2,358k (2016 – CAD\$315k) and trade and other receivables of CAD\$1,912k (2016 – CAD\$1,956k).

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

The composition of trade and other receivables is summarised in the following table, for the nine months ended 31 December:

	2017	2016
	CAD\$'000	CAD\$'000
Oil and natural gas sales	1,440	1,025
Stamp tax and other tax withholdings	83	731
Goods and services tax	188	96
Other	201	104
	1,912	1,956

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.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

The Company's receivables are aged as follows, for the nine months ended 31 December:

	2017	2016
	CAD\$'000	CAD\$'000
Current	1,912	1,749
90 + days	-	207
	1,912	1,956

b) Liquidity risk

Liquidity risk is the risk that the Company may incur difficulties meeting its financial obligations as they are due. Zenith'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.

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

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

	Carrying Amount	Contractual cash flow	Due on or before 31 December 2018	Due on or before 31 December 2019	Due after 31 December 2019
	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000	CAD \$'000
Trade and other payables	3,857	3,857	3,857	-	-
Loan payable	5,110	5,278	4,788	378	112
Bonds payable	381	392	392	-	-
Deferred consideration	484,474	1,191,428	1,897	10,076	1,179,455
	493,822	1,200,955	10,934	10,454	1,179,567

c) Currency risk

Foreign currency exchange risk is the risk that the fair value of future cash flows may fluctuate as a result of changes in foreign exchange rates. Foreign exchange rates to Canadian dollars for the noted dates (31 December 2017 and 2016) and periods (nine months ended 31 December 2017 and 2016) are as follows

	Closing rate		Average rate	
	2017	2016	2017	2016
Argentine Peso	0.0662	0.0853	0.0673	0.0881
US dollars	1.2454	1.3427	1.2552	1.3087
Euro	1.5034	1.4169	1.5133	1.4502
Swiss Franc	1.2855	1.3214	1.2858	1.3328
British Pound	1.6932	1.6564	1.6544	1.7406

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at December 31, 2017 and 2016 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	2017	2016
	CAD\$'000	CAD\$'000
US dollars	144	418
Euro	44	118
Swiss Franc	63	75
British Pound	52	54
	303	665

d) Commodity price risk

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

As at December 31, 2017 a 5% change in the price of natural gas produced in Italy would represent a change in net income for the nine months ended December 31, 2017 of approximately CAD\$13k (2016 – CAD\$8k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the three and nine months ended December 31, 2017 of approximately CAD\$18k (2016 – CAD\$24k).

As at December 31, 2017, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net profit (loss) for the nine months ended December 31, 2017 of approximately CAD\$175k (2016 – CAD\$119k).

e) Interest rate risk

Interest rate risk is the risk that future cash flows may fluctuate as a result of changes in market interest rates. The Company 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 Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it may continue to explore and develop its operations to provide returns for shareholders and benefits for other stakeholders.

	2017	2016
	CAD\$'000	CAD\$'000
Working capital (deficiency)	(2,883)	(6,025)
Long-term debt	2,339	3,685
Shareholders' equity	578,917	606,174

The Company's cash flows from its Azerbaijan and Italian operations will be needed in the near term to finance the operations and repay vendor loans. Zenith's principal source of funds will therefore remain the issuance of equity. The Company'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 Company's ability to continue as a going concern.

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

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

24. Operating segments

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

The Company has three reportable segments which are as follows:

- Italy, where natural gas production activities began following the acquisition of assets in June 2013;
- Azerbaijan, which was acquired during the 2017 financial year; and,
- Other. This includes corporate assets and the operations of the Canadian, Swiss and other entities.

The data relating the assets in Argentina are detailed only in the nine months ended December 31, 2016 datasheet, because these assets were disposed on February 2017.

Nine months ended December 31, 2016	Argentina CAD \$000	Azerbaijan CAD \$001	Italy CAD \$000	Other CAD \$000	Total CAD \$000
Property and equipment	3,060	1,052,489	10,849	-	1,066,398
Other assets	409	1,190	905	249	2,753
Total liabilities	4,351	443,662	7,420	7,545	462,978
Capital Expenditures	-	20	84	-	104
Revenue	79	2,372	533	-	2,984
Royalties	(7)	-	-	-	(7)
Operating and transportation	(547)	(1,022)	(363)	-	(1,932)
General and Administrative	(304)	(790)	(417)	(2,186)	(3,697)
Depletion and depreciation	(11)	(320)	(192)	-	(523)
Impairment of property and equipment	-	-	-	-	-
Other expense	-	-	-	-	-
Finance and other expenses	7	618,153	(35)	(237)	617,888
Segment (loss)/ income	(783)	618,393	(474)	(2,423)	614,713

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

Nine months ended December 31, 2017	Azerbaijan CAD \$000	Italy CAD \$000	Other CAD \$000	Total CAD \$000
Property and equipment	1,067,311	8,284	148	1,075,743
Other assets	1,613	826	4,935	7,374
Total liabilities	490,907	7,500	5,793	504,200
Capital Expenditures	3,347	71	-	3,418
Revenue	3,786	616	-	4,402
Royalties	-	-	-	-
Operating and transportation	(1,684)	(275)	-	(1,959)
General and Administrative	(745)	(277)	60	(962)
Depletion and depreciation	(533)	(94)	(349)	(976)
Impairment of property and equipment	-	-	-	-
Other expense	-	-	-	-
Finance and other expenses	(35)	43	56	64
Segment (loss)/ income	789	13	(233)	569

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

		2017	2016
		CAD\$000	CAD\$000
Customer A		3,786	2,372
Customer B		373	-

25. Post Balance Sheet events

- a) On January 10, 2018 the Company closed a private placement to raise gross proceeds of CAD\$500k (approximately £297k) through the issue of 4,000,000 new common shares of no par value in the capital of the Company at a price of CAD\$0.125 (approximately £0.0742) per New Common Share with Canadian investors. The proceeds of the private placement will be used to purchase equipment for the development of the Company's oil production operations in Azerbaijan. The Company also paid finder's fees for £3k (approximately CAD\$5k).
- b) On January 12, 2018 the Company has entered into an exclusivity agreement (the "**Agreement**") for the acquisition of various production and exploration licences in a Central Asian country (the "**Proposed Acquisition**").

The Proposed Acquisition envisages Zenith acquiring a combined total acreage covering approximately 3,600 sq. kilometres.

Specifically, these include:

- production areas covering approximately 550 sq. kilometres, and highly prospective exploration areas covering approximately 3,050 sq. kilometres.
- Low-cost existing production of approximately 250 bopd transported via tanker to local refineries.

Zenith Energy Ltd.
Unaudited Financial Statements
For the nine months ended December 31, 2017 and 2016

- The Proposed Acquisition licences are located in a prolific oil and gas basin with a proven petroleum system. These licenses are significantly undeveloped and present a number of highly attractive field rehabilitation and exploration opportunities through the introduction of new technology and the application of international oil production expertise.
- Extensive 2D seismic performed across the license areas.

The Company will provide an update regarding the progress of the Proposed Acquisition once the due diligence process has been completed. The Proposed Acquisition remains at an early stage and there can be no guarantee that the transaction will be successfully completed. Completion of the Proposed Acquisition remains conditional on, inter alia, completion of satisfactory due diligence, the entering into of binding agreements and financing of the Proposed Acquisition.

The Agreement provides that Zenith shall hold the exclusive right to negotiate the signing of the Proposed Acquisition. The Agreement will expire on the later of execution of the Proposed Acquisition, or April 30, 2018.

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

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

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

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

The Settlement Shares, issued pursuant to the Share Settlement, will be subject to a contractual hold period of one year, inclusive of a four-month hold period under the rules and regulations of the TSX Venture Exchange and applicable Canadian securities laws.

The Share Settlement is subject to the final approval of the TSXV.

Following the issue of the New Common Shares, the Company has 158,798,698 common shares in issue and admitted to trading on the Toronto Stock Exchange Venture Exchange.

Zenith currently has 153,200,119 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange. The above figure may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or change to their interest in, the share capital of the Company under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. A further announcement will be made closer to Admission in relation to the Total Voting Rights of the Company's common shares admitted to trading on the Main Market of the London Stock Exchange.

- c) On January 25, 2018 the Company announced that it had signed a purchase agreement contract for the order of a new workover rig, (the "**New Workover Rig**"), with a well-established manufacturer based in Azerbaijan.

The New Workover Rig is designated as an A-100 truck-mounted workover rig. The model of the New Workover Rig has an extensive manufacturing history in Russian and Central Asian countries and is among the most heavily utilised workover rig variants in the region. The abundant availability of spare parts and mechanical support in the proximity of the Company's operations has played an important role in the selection of the New Workover Rig.

The use of the New Workover Rig will not be restricted to the Company's Azerbaijan operations.

Delivery of the New Workover rig is expected to take place ninety days from the signing of the purchase agreement contract.

The total value of the purchase agreement contract for the New Workover Rig is approximately CAD\$440k (approximately £251k).

- d) 1,629,859 warrants to subscribe for common shares in the Company at a price of CAD\$0.25 per common share expired during January 2018. 3,124,400 warrants to subscribe for common shares in the Company at a price of CAD\$0.25 per common share expired during February 2018.
- e) In February 2018 the repayment terms for the Euro Bank loan with GBM Banca of Rome, with an original value of €220k, were amended and the balance of the loan is now repayable in 60 months. The payments of the principal and interest will run on a monthly basis until October 2022