Zenith Energy Ltd.

Consolidated Financial Statements

As at and for the years ended March 31, 2016 and 2015

Independent Auditors' Report

To the Shareholders of Zenith Energy Ltd.

We have audited the accompanying consolidated financial statements of Zenith Energy Ltd. (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2016 and 2015, the consolidated statements of loss and comprehensive loss, changes in (deficit) equity and cash flows for the yearss then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Zenith Energy Ltd. as at March 31, 2016 and 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty which may cast significant doubt about Zentih Energy Ltd.'s ability to continue as a going concern.

MNP LLP

Calgary, Alberta
July 29, 2016

Chartered Professional Accountants

Zenith Energy Ltd.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at March 31	Note	**2016** $	2015 $
ASSETS			
Current assets			
Cash		137,982	936,499
Marketable securities	6	7,632	236,993
Trade and other receivables	26	787,477	713,031
Inventory	7	173,457	65,419
Prepaid expenses		385,504	247,384
		1,492,052	2,199,326
Non-current assets			
Property and equipment	9	14,598,089	16,693,522
Prepaid property and equipment insurance	10	207,000	355,407
Total assets		16,297,141	19,248,255
LIABILITIES			
Current liabilities			
Trade and other payables	26	3,266,503	2,234,573
Oil share agreement	11	1,027,504	1,004,690
Note payable	12	-	200,499
Loans payable	13	3,210,114	2,166,679
Convertible notes	14	697,046	-
		8,201,167	5,606,441
Non-current liabilities			
Loans payable	13	673,647	433,336
Convertible notes	14	-	582,646
Derivative liability	14	357,936	159,322
Bonds	15	563,103	-
Decommissioning obligation	16	7,896,671	5,779,799
Deferred taxes	17	883,567	2,397,623
Total liabilities		18,576,091	14,959,167
SHAREHOLDERS' (DEFICIT) EQUITY			
Share capital	18	9,578,270	8,686,556
Warrants	19	1,509,537	1,245,708
Contributed surplus		2,231,583	2,138,583
Accumulated other comprehensive loss		(1,952,414)	(1,810,281)
Deficit		(13,645,926)	(5,971,478)
Total shareholders' (deficit) equity		(2,278,950)	4,289,088
Total liabilities and shareholders' equity		16,297,141	19,248,255

Going concern (Note 1)

Subsequent events (Note 28)

Approved by the Board of Directors

(Signed) “Erik Larre”, Director

(Signed) “Jose Ramon Lopez-Portillo”, Director

Zenith Energy Ltd.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

For the years ended March 31	Note	2016 $	2015 $
Revenue			
Oil and gas revenue		1,813,104	4,784,438
Electricity revenue		262,054	-
Royalties		(115,408)	(345,132)
		1,959,750	4,439,306
Expenses			
Operating		1,747,134	1,760,171
Transportation		56,875	52,896
General and administrative		3,098,472	2,695,386
(Gain) loss on sale of marketable securities	6	(19,619)	135,910
Fair value adjustment on marketable securities	6	27,832	161,560
Impairment of inventory	7	228,657	-
Transaction costs	8	35,536	-
Other expense	8	32,235	-
Depletion and depreciation	9	331,553	667,915
Impairment of property and equipment	9	5,025,000	-
(Gain) loss on conversion of convertible notes	14	(12,934)	82,434
Fair value adjustment on derivative liability	14	221,300	(513,941)
Foreign exchange		(717,359)	253,646
		10,054,682	5,295,977
Loss from operations		(8,094,932)	(856,671)
Finance expense	22	(1,093,572)	(1,420,119)
Net loss before tax		(9,188,504)	(2,276,790)
Tax (provision) reduction	17	1,514,056	(99,491)
Net Loss		(7,674,448)	(2,376,281)
Exchange differences on translation on foreign operations		(142,133)	(1,598,204)
Comprehensive loss		(7,816,581)	(3,974,485)
Net loss per share			
Basic and diluted	21	(0.23)	(0.11)
Weighted average shares outstanding			
Basic and diluted	21	33,015,721	21,145,518

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

Zenith Energy Ltd.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

For the years ended March 31	Note	**2016** $	2015 $
Operating activities			
Net loss		(7,674,448)	(2,376,281)
Items not involving cash:			
Shares issued for services		66,717	-
(Gain) loss on sale of marketable securities	6	(19,619)	135,910
Fair value adjustment on marketable securities	6	27,832	161,560
Impairment of inventory	7	228,657	-
Other expense	8	32,235	-
Depletion and depreciation	9	331,553	667,915
Impairment of property and equipment	9	5,025,000	-
Loss on conversion of convertible notes	14	(12,934)	82,434
Fair value adjustment on derivative liability	14	221,300	(513,941)
Finance expense		719,757	1,000,124
Tax provision (reduction)		(1,514,056)	99,491
		(2,568,006)	(742,788)
Foreign exchange on translation		(804,231)	61,362
Change in non-cash working capital	24	898,470	47,044
		(2,473,767)	(634,383)
Financing activities			
Proceeds from issuance of bonds	15	517,731	-
Proceeds from bank loans, net of repayment		454,338	-
Repayment of notes payable		(204,315)	(274,642)
Proceeds from issue of share capital, net of issue costs		1,049,967	2,147,708
Change in non-cash working capital	24	158,784	30,660
		1,976,505	1,903,726
Investing activities			
Proceeds on sale of marketable securities	6	361,926	55,981
Purchase of marketable securities	6	(136,568)	(202,863)
Expenditures on property and equipment		(414,921)	(1,170,600)
Change in non-cash working capital	24	34,395	299,716
		(155,168)	(1,017,767)
Change in cash		(652,430)	251,577
Foreign exchange effect on cash held in foreign currencies		(146,087)	(26,326)
Cash, beginning of year		936,499	711,248
Cash, end of year		137,982	936,499
Supplemental cash flow information			
Interest paid		264,503	305,531
Taxes paid		-	-

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

Zenith Energy Ltd.

Consolidated Statements of Changes in (Deficit) Equity

(Expressed in Canadian dollars)

For the years ended March 31	Note	**2016** $	2015 $
Share capital			
Balance - beginning of year		8,686,556	7,151,893
Unit private placements, net of issue costs	18	1,047,867	2,147,708
Fair value of warrants	19	(333,200)	(1,152,708)
Debt settlement	18	66,717	-
Conversion of convertible notes	14	110,330	539,663
Balance - end of year		9,578,270	8,686,556
Warrants			
Balance - beginning of year		1,245,708	487,257
Fair value of warrants	18	356,829	1,152,708
Expiry of warrants	19	(93,000)	(394,257)
Balance - end of year		1,509,537	1,245,708
Contributed surplus			
Balance - beginning of year		2,138,583	1,744,326
Expiry of warrants		93,000	394,257
Balance - end of year		2,231,583	2,138,583
Accumulated other comprehensive loss			
Balance - beginning of year		(1,810,281)	(212,077)
Exchange differences on translation of foreign operations		(142,133)	(1,598,204)
Balance - end of year		(1,952,414)	(1,810,281)
Deficit			
Balance - beginning of year		(5,971,478)	(3,595,197)
Net loss		(7,674,448)	(2,376,281)
Balance - end of year		(13,645,926)	(5,971,478)
Total (deficit) equity		(2,278,950)	4,289,088

1. Nature of operations and going concern

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

As at March 31, 2016, the Company has a working capital deficit of $6,709,115 (2015 – $3,407,115), negative cash flows from operating activities of $2,473,767 (2015 – $634,383) and an accumulated deficit of $13,645,926 (2015 – $5,971,478) since its inception, and may incur future losses in the development of its business. Current cash resources will not be sufficient to continue the exploration and development activities. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and attain future profitable operations in Argentina and Italy. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

Subsequent to March 31, 2016, the Company raised $926,575 of net proceeds through the issuance of units and common shares (Note 28(a)), settled $345,473 of debt through the issuance of common shares (Notes 28(b) and (c)), extended the repayment date of the USD 700,000 payment due on the loan payable to (Note 28(d)) and sold the GRIT shares for proceeds of $10,840 (Note 28(e)). In addition, the Company received notice in June 2016 that the Parliament of the Republic of Azerbaijan ratified the Rehabilitation, Exploration, Development and Production Sharing Agreement ("REDPSA") for certain blocks of Azerbaijan oil fields in which the Company holds an 80% participating interest in current and future production (Note 28(f)).

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

2. Basis of presentation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in effect for the fiscal year beginning April 1, 2015.

These consolidated financial statements were authorized for issue by the Board of Directors on July 29, 2016.

Operating expenses in the consolidated statement of loss and comprehensive loss are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation are presented on a separate line by their nature, while operating expenses and net general and administrative expenses are presented on a functional basis. Significant expenses such as salaries, wages and fees are presented by their nature in the notes to the consolidated financial statements (Note 23).

(b) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value.

(c) 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 currency of the Company is the CAD. The functional currencies of the Company's subsidiaries are Argentine Pesos ("ARS") for the subsidiaries in Argentina, United States ("USD") dollars for the subsidiaries in the US, Euros ("EUR") for the subsidiary in Italy and New Manat for the subsidiary in the British Virgin Islands.

3. Significant accounting policies

a) Consolidation

Subsidiaries

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

Entity	Registered	Holding
Zenith Energy Ltd.	Canada	Parent
Ingenieria Petrolera del Rio de la Plata SRL	Argentina	100%
Ingenieria Petrolera Patagonia Ltd ("IPP")	US	100%
Canoel Italia SRL	Italy	100%
Zenith Aran Oil Company	British Virgin Islands	100%
Petrolera Patagonia Corporation ("PPC")	US	100% owned subsidiary of IPP
PP Holding Inc. ("PPH")	US	100% owned subsidiary of IPP
Petrolera Patagonia SRL	Argentina	95% owned subsidiary of PPC and 5% held by PPH

Subsidiaries are entities controlled by the Company. 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.

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.

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

Transaction costs that are incurred in connection with a business combination other than those associated with the issue of debt or equity instruments, are recognized in the consolidated statement of loss and comprehensive loss.

Joint arrangements

The Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

Transactions eliminated on consolidation

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

b) 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 recognized in the consolidated statements of loss and comprehensive loss.

The financial results and position of subsidiaries 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 the Company's subsidiaries are transferred directly to the Company's exchange difference on translating foreign operations on the statement of comprehensive loss and are reported as a separate component of shareholders' equity titled "Accumulated Other Comprehensive Loss". These differences are recognized in the consolidated statement of loss and comprehensive loss in the period in which the subsidiary is disposed of.

c) Cash

Cash consist of cash deposits in bank accounts.

d) Inventory

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

e) Prepaid expenses

Prepaid expenses include prepaid fees which are based on the invoiced amount and amortized over the term of the related payment.

f) Property 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 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 and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

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

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

Subsequent costs

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

Depletion and depreciation

The net book value of producing assets are depleted on a cash-generating unit ("CGU") 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 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 at least 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 CGUs for the purpose of impairment testing. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGUs recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of D&P assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognized as an expense in the consolidated statement of loss and comprehensive loss.

At the end of each subsequent reporting period, these impairments are assessed for indicators of reversal. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized in the consolidated statement of loss and comprehensive loss.

g) Decommissioning obligation

The Company recognizes a decommissioning obligation in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning obligation is recorded with a corresponding increase in the carrying amount of D&P assets.

Decommissioning obligations 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 recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

h) Tax expense

Tax expense is comprised of current and deferred tax. Tax expense is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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 realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

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

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

i) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, marketable securities, trade and other payables, oil share agreement, note payable, loans payable, bonds and convertible notes. Non-derivative financial instruments are recognized 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:

<u>Financial assets at fair value through profit or loss</u>

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 recognized in the consolidated statement of loss and comprehensive loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated statement of loss and comprehensive 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 and marketable securities as fair value through profit or loss. The carrying amount of cash approximates fair value due to its

short term to maturity. The carrying amount of the marketable securities represents its fair value as the carrying amount is based on the quoted market price of the marketable securities at the statement of financial position date.

Other

Other non-derivative financial instruments, such as trade and other receivables, trade and other payables, oil share agreement, note payable and loans payable are measured at amortized cost using the effective interest method, less any impairment losses. The carrying amount of these financial instruments approximates fair value (Note 4).

Compound financial instruments

Compound financial instruments bond units which included warrants exercisable into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognized as the fair value of the liability without the conversion feature or warrant component. The equity component is recognized as the difference between the bond proceeds and the fair value of the liability component. Transaction costs are proportionately allocated between the components. Subsequently, the liability component is measured at amortized cost using the effective interest method and accretes up to the principal balance at maturity. The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss is recognized.

Derivative financial instruments

The Company evaluates all financial instruments for freestanding and embedded derivatives. The conversion feature of convertible notes is an embedded derivative if the principal amount is convertible into common shares at a conversion price in a currency that differs from the currency of the principal amount such as when a foreign currency principal amount is convertible into common shares (and warrants) at a CAD conversion price. In this case, the Company recognizes the fair value of the derivative components at the date of issuance, with the remainder of the proceeds attributed to the liability component of the convertible notes. The derivative component is marked-to-market at each reporting date using the Black-Scholes pricing model to estimate the fair value. Changes in the fair value of the derivative liability are included in the consolidated statements of loss and comprehensive loss. The liability component accretes up to the principal balance at maturity. Upon conversion, the liability component is reclassified to equity and a gain or loss is recognized in the consolidated statements of loss and comprehensive loss for differences between the conversion price and the market price of the Company's shares on the date of conversion.

j) 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 amortized 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 recognized in the consolidated statements of loss and comprehensive loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

k) De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or substantial modification is

treated as a de-recognition or extinguishment of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of loss and comprehensive loss.

The terms of an existing liability are substantially modified if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

l) Share capital

Common shares are classified as equity. Warrants that entitle the holder the right to acquire a fixed number of the Company's common shares for a fixed amount of CAD are also classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity.

m) Share-based payments

The Company follows the fair value method of accounting for stock options. The fair value of each stock option is calculated using the Black-Scholes option pricing model and is charged as share-based payments expense over the vesting period of the option, with a corresponding increase recorded in contributed surplus. Forfeitures are accounted for at grant date and adjusted based on actual vesting. Upon exercise of the stock option, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

n) Per share amounts

The Company presents basic and diluted per share data for its common shares. Basic per share amounts are calculated by dividing the profit of loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted 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.

o) Revenue recognition

Revenues from oil and natural gas and electricity sales are recognized when title and risks pass to the purchaser and payment is reasonably assured.

p) Finance income and expense

Finance income is recognized as it accrues in the consolidated statements of loss and comprehensive loss using the effective interest method.

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

q) Leases

Payments made under operating leases are recognized in expense in accordance with the terms and conditions of the lease which typically results in payments being recognized on a straight-line basis over the term of the lease.

r) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the executive directors that make strategic decisions.

s) Changes in accounting standards

On April 1, 2015, the Company adopted amendments to IFRS 3 Business Combinations and IAS 24 Related Party Transactions. The adoption of these amendments had no impact on the amounts recorded in the consolidated financial statements for the year ended March 31, 2016.

t) New standards and interpretations not yet adopted

The Company has reviewed amendments to accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. IFRS 9 is effective for annual period beginning on or after January 1, 2018.

IFRS 11 Joint Arrangements

Amendments to IFRS 11 Joint Arrangements clarify the accounting for acquisitions of interests in joint operations. The amendments are effective for annual period beginning on or after January 1, 2016.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15 Revenue from Contracts with Customers which specifies how and when an entity will recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 is effective for annual period beginning on or after January 1, 2018.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

IAS 7 Statement of Cash Flows

Amendments to IAS 7 Statement of Cash Flows require disclosures that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 12 Income Taxes

Amendments to IAS 12 Income Taxes clarify the recognition of deferred tax assets for unrealized losses related debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets clarify acceptable methods of depreciation and amortization. The amendments are effective for annual periods beginning on or after January 1, 2016.

The Company is currently assessing the impact these standards and amendments may have on its consolidated financial statements.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Property and equipment

The fair value of property and equipment recognized in a business combination is based on fair value at the date of acquisition. The fair value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas assets (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The discount rate is specific to the asset with reference to general market conditions.

b) Cash, trade and other receivables, trade and other payables, oil share agreement, note payable, loans payable, convertible note and bonds

The fair value of cash, trade and other receivables, trade and other payables, oil share agreement, note payable, loans payable, convertible note and bonds is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2016 and 2015, the fair value of these balances approximated their carrying amount.

c) Marketable securities

The fair value of the marketable securities is based on the quoted market price of the marketable securities on statement of financial position date.

d) Derivative liability

The derivative liability is marked-to-market at each reporting date using the Black-Scholes pricing model.

e) Stock options and warrants

The fair value of stock options and warrants is measured using a Black-Scholes pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected forfeiture rate (based on historic forfeitures), expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information including volatilities of peer companies), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

The Company did not grant any stock options as share-based payments in the years ended March 31, 2016 and 2015. The grant date weighted average fair value of warrants issued in the year ended March 31, 2016 was $0.03 per warrant (2015 – $0.07 per warrant), estimated using the Black-Scholes pricing model calculations based on the following significant assumptions:

	2016	2015
Risk-free interest rate	0.42% - 0.68%	0.45% - 1.11%
Expected volatility	100%	75%
Expected life	2 – 3 years	3 years
Dividends	nil	nil

f) Financial instruments

The Company determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1– Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Cash and marketable securities are Level 1 financial assets.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. The convertible note and related derivative liability and bonds are Level 2 liabilities.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

5. Critical accounting judgments and estimates in applying accounting policies

a) Judgments

Judgment is used in situations when there is a choice and/or assessment requirement by management. The following are critical judgments apart from those involving estimations (disclosed below), that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized the consolidated financial statements.

Going concern

As discussed in Note 1, these consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

It is management's assessment that the going concern assumption is appropriate based on its continued ability to raise funds and amend debt terms as disclosed in Note 28.

Business combinations

Management uses judgment to assess whether an acquisition meets the definition of a business under IFRS.

Cash-generating units

Management makes judgments in determining its CGUs and evaluates the geography, geology, production profile, infrastructure and independence of cash flows of its assets in making such determinations. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations. Based on this assessment, the Company's CGUs are generally composed of significant development areas. As at March 31, 2016 and 2015, the Company had one CGU in Argentina and one CGU in Italy. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

Impairment of oil and natural gas properties

Management uses judgment to assess the existence of impairment indicators such as events or changes in circumstances that may indicate the carrying amount of oil and natural gas properties may not be recoverable.

Decommissioning obligations

Management uses judgment to assess the Company's legal obligations to decommission its oil and natural gas properties and restore property sites after closure. The Company's production activity is required to be in compliance with various environmental laws and regulations in Argentina and Italy. The assessment of

decommissioning obligations is based on management's understanding of the current legal and environmental requirements and third party engineering valuations.

Deferred taxes

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable income.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events. It is management's assessment that there are no contingencies as at March 31, 2016 or 2015.

b) Estimates

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. The significant areas of estimation uncertainty are as follows:

Business combinations

In a business combination, the Company estimates the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon an estimation of recoverable reserves being acquired.

Carrying value of oil and natural gas assets

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use and fair value less costs to sell.

These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. The carrying value of oil and gas assets is sensitive to changes in the aforementioned estimates and assumptions and a material adjustment to the carrying value of the Company's oil and natural gas assets may be required as a result of changes to these estimates and assumptions.

Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

Estimation of oil and natural gas reserves

The estimate of oil and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statements of loss and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Company's oil and natural gas assets is impaired. Changes in reported reserves can impact asset carrying values and the decommissioning obligation due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

Decommissioning obligation

Amounts recorded for the Company's decommissioning obligation requires the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures, discount rates and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on the Company's consolidated statements of loss and comprehensive loss or its consolidated statements of financial position.

Modifications of financial liabilities

The Company must estimate the discount rate used to determine the discounted present value of the cash flows under the new terms of the financial liability and the discounted present value of the remaining cash flows of the original financial liability at the date the terms of an existing liability are modified.

Stock options, warrants and derivative financial instruments

The estimated fair value of stock options, warrants and derivative financial instruments by their very nature are subject to measurement uncertainty. The Company uses the Black-Scholes pricing model to estimate the fair value of stock options, warrants and derivative financial instruments, which is based on significant assumptions such as volatility, forfeiture rate, interest rate, dividend yield and expected term.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Contingencies

When contingencies exist, management estimates the related financial impact to the Company of the possible outcomes of one or more future events.

6. Marketable securities

		2016		2015
GRIT shares (a)	$	7,632	$	34,130
Bonds (b)		–		202,863
	$	7,632	$	236,993

a) GRIT shares

As at March 31, 2016, the Company held 116,913 GRIT shares with a fair value of British Pounds ("GBP") 4,092 ($7,632) (2015 – 116,913 GRIT shares with a fair value of GBP 18,122 ($34,130)). During 2016, the Company recognized a $nil loss (2015 – $135,910 loss) on the sale of marketable securities, a $27,832 loss (2015 – $161,560 loss) on the fair value of the marketable securities and a $1,334 gain (2015 – $9,121 gain) on foreign exchange in the consolidated statements of loss and comprehensive loss.

The Company sold all of the GRIT shares for gross cash proceeds of $10,840 in July 2016 (Note 28(e)).

b) Bonds

As at March 31, 2015, the Company held USD 120,370 of Argentine government-issued Boden 2015 bonds at a market price of 11.72 USD bonds to Pesos ($202,863). The bonds bore interest at a fixed rate of 7 % per annum payable semiannually, calculated on the basis of a 360 day year, and were to mature on October 3, 2015 with early redemption permitted at the option of the holder. In May 2015, the Company sold the bonds for $204,315 of proceeds which were used to repay notes payable as disclosed in Note 12.

In May 2015, the Company acquired USD 84,000 of Argentine government-issued Boden 2015 bonds at a market price of 11.78 USD bonds to Pesos ($136,568). The bonds bear interest at a fixed rate of 7 % per annum payable semiannually, calculated on the basis of a 360 day year, and mature on October 3, 2015 with early redemption

permitted at the option of the holder. In July 2015, the Company sold the bonds for $157,611 of proceeds.

During the year ended March 31, 2016, the Company recognized a $19,619 gain (2015 – $nil) on the sale of marketable securities and a $2,876 gain (2015 – $nil) on foreign exchange in the consolidated statement of loss and comprehensive loss

7. Inventory

		2016		2015
Cost	$	402,114	$	65,419
Impairment of inventory		(228,657)		–
Lower of cost and net realizable value	$	173,457	$	65,419

As at March 31, 2016, inventory was comprised of 2,267 barrels (2015 – 2,275 barrels) of oil valued at the lower of cost or net realizable value based on a selling price of USD 59 (2015 – USD 60) per barrel.

8. Business combination

On October 1, 2015, the Company acquired a co-generation plant and assumed certain liabilities for a plant employee from a third party for total consideration of EUR 449,190 ($666,194), of which EUR 401,148 ($549,943) was financed in the form of a loan payable to the seller (Note 13(d)) and EUR 48,042 ($71,251) was offset against trade and other receivables due from the seller. The loan payable is secured by the co-generation plant and bears interest at 3.5% per annum and is repayable in 30 monthly payments of principal and interest until March 31, 2018.

The acquisition of the co-generation plant was accounted for as a business combination using the acquisition method of accounting:

Fair value of net assets acquired:		
Co-generation plant (D&P assets)	$	708,296
Decommissioning obligation		(11,239)
Trade and other payables		(30,863)
	$	666,194
Consideration:		
Euro loan payable (Note 13(d))		594,943
Trade and other receivables		71,251
	$	666,194

The estimated value of the D&P assets acquired was determined using both internal estimates and an independent evaluation. The fair value of decommissioning obligation assumed was determined using the timing and estimated costs associated with the abandonment, restoration, and reclamation of the co-generation plant acquired, discounted at a credit-adjusted rate in accordance with IFRS 3 Business Combinations and IFRS 13 Fair Value Measurement.

On October 2, 2015, the day immediately following the acquisition date, the decommissioning obligation assumed was re-measured 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 $32,235 increase in the decommissioning obligation associated with the acquired assets and the recognition of a $32,235 measurement adjustment in the March 31, 2016 consolidated statement of loss and comprehensive loss.

Costs related to acquisition were $35,536 and charged to income during the year ended March 31, 2016. During the period from October 1, 2015 to March 31, 2016, the acquisition attributed revenues of $262,054 and net income of $179,704 for the period, which is included in the March 31, 2016 consolidated statement of loss and

comprehensive loss.

If the business combination, as described above, had occurred on April 1, 2015, the Company estimates that the revenue would have increased by approximately $242,900 and consolidated net loss and comprehensive loss would have decreased by approximately $173,800. This pro forma information is not necessarily indicative of results had the acquisition occurred on April 1, 2015.

9. Property and equipment

	D&P assets	Furniture & equipment	Total
Cost			
Balance – March 31, 2014	$ 20,517,023	$ 80,634	$ 20,597,657
Additions	1,170,600	–	1,170,600
Decommissioning obligation	(1,486,574)	–	(1,486,574)
Foreign currency translation	(1,600,964)	3,389	(1,597,575)
Balance – March 31, 2015	$ 18,600,085	$ 84,023	$ 18,684,108
Additions	312,807	–	312,807
Business combination (Note 8)	708,296	–	708,296
Decommissioning obligation	2,131,017	–	2,131,017
Foreign currency translation	(139,934)	(32,102)	(172,036)
Balance – March 31, 2016	$ 21,612,271	$ 51,921	$ 21,664,192
Accumulated depletion and depreciation			
Balance – March 31, 2014	$ (1,294,296)	$ (49,847)	$ (1,344,143)
Depletion and depreciation	(663,358)	(4,557)	(667,915)
Foreign currency translation	23,839	(2,367)	21,472
Balance – March 31, 2015	$ (1,933,815)	$ (56,771)	$ (1,990,586)
Depletion and depreciation	(326,048)	(5,505)	(331,553)
Impairment	(5,025,000)	–	(5,025,000)
Foreign currency translation	257,707	23,329	281,036
Balance – March 31, 2016	$ (7,027,156)	$ (38,947)	$ (7,066,103)
Carrying amount			
March 31, 2015	$ 16,666,270	$ 27,252	$ 16,693,522
March 31, 2016	$ 14,585,115	$ 12,974	$ 14,598,089

The depletion calculation for the year ended March 31, 2016 included estimated future development costs of $2.7 million for proved and probable reserves (2015 – $4.9 million).

As at March 31, 2016 and 2015, the Company identified certain business risks related to its Italian and Argentine CGUs, such as a decrease in forecast prices from those in prior years and the deferral of future capital investment, as indicators of impairment. As a result, the Company performed impairment tests at March 31, 2016 and 2015 and estimated the recoverable amount of the above CGUs based on the higher of the fair value less costs to sell and its value in use.

The estimated fair value less costs to sell of the Argentine CGU was based on 20% (2015 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at March 31, 2016 and 2015. The estimated recoverable amount of the Argentine CGU at both March 31, 2016 and 2015 was higher than the carrying amounts at March 31, 2016 and 2015 and therefore no impairment was recognized.

The estimated fair value less costs to sell of the Italian CGU was based on 15% (2015 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve

reports at March 31, 2016 and 2015. The estimated recoverable amount of the Italian CGU at March 31, 2016 was lower than the March 31, 2016 carrying amount resulting in the recognition of $5,025,000 of impairment in the 2016 consolidated statement of loss and comprehensive loss. The estimated recoverable amount of the Italian CGU at March 31, 2015 was higher than the March 31, 2015 carrying amount and therefore no impairment was recognized.

The price used onward from March 31, 2016 for the impairment test of the Argentine CGU was USD59 per bbl.

The following prices were used in the March 31, 2016 impairment test of the Italian CGU:

Year	Average USD gas price per mcf	Average USD NGL price per bbl
2016 – remainder	$2.99	$51.63
2017	2.62	66.59
2018	2.65	73.06
2019	2.72	75.78
2020	2.79	78.38
2021	2.85	80.72
2022 and thereafter	1% escalation	1% escalation

10. Prepaid property and equipment insurance

The Company holds 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 567,300 ($867,939) in June 2014, as such $180,450 (2015 – $209,720) has been recognized as an expense, $165,600 (2015 – $157,958) is included in current prepaid expenses and the remaining $207,000 (2015 – $355,407) balance is reported as a long-term asset.

11. Oil share agreement

In connection with a business combination completed in July 2010, the Company became obligated to an oil share agreement pursuant to which, for a period of three years commencing November 30, 2010, the Company would provide the vendor with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil from the properties at a per barrel invoice price that exceeds USD 42.00, but is less than or equal to USD 52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds USD 52.00. The term of the agreement ended on November 2, 2013 however, the Company has not yet made any payments under this agreement.

The following table presents the reconciliation of the carrying amount of the oil share agreement:

		2016		2015
Balance – beginning of year	$	1,004,690	$	875,727
Foreign currency translation		22,814		128,963
Balance – end of year	$	1,027,504	$	1,004,690

12. Note payable

As at March 31, 2014, the Company had USD 340,000 of notes payable outstanding secured by a mortgage on the oil and natural gas properties in Argentina and bearing interest at a fixed rate of 11%. The notes were to mature at various dates between October 2013 and October 2014, at which time accrued interest also became payable.

During the year ended March 31, 2015, the Company repaid USD 241,330 ($274,642) of notes payable plus related accrued interest. As at March 31, 2015, the balance of the note payable was USD 118,764 ($200,499) comprised of USD 98,670 of principal and USD 20,094 of accrued interest.

The Company repaid the balance of the note payable including accrued interest in May 2015 with proceeds from the redemption of bonds (Note 6(b)).

13. Loans payable

As at March 31	2016	2015
USD loan payable (a)	$ 2,834,600	$ 2,600,015
Euro bank debt (b)	288,422	–
Euro bank debt (c)	282,457	–
Euro loan payable (d)	478,282	–
	3,883,761	2,600,015
Current portion of loans payable	(3,210,114)	(2,166,679)
Long-term portion of loans payable	$ 673,647	$ 433,336

a) USD loan payable

As at March 31, 2015, the Company was indebted to a third party lender for a USD 2,050,000 ($2,600,015) loan payable secured by the shares of its wholly owned subsidiary, IPP, and bearing fixed interest at 10% per annum. All accrued and unpaid interest up to June 1, 2015 was to be paid in full by June 1, 2015, followed by equal monthly installments of principal and interest until June 1, 2016. The loan agreement also included the following terms:

- Conversion of the loan to bonds and the issuance of 500,000 warrants to the lender exercisable at $1.00 per share until June 1, 2015, subject to approval by the TSX Venture Exchange, for which the fair value of the conversion feature was estimated to be a negligible amount; and
- Distribution of certain net profits to the lender, as defined in the loan agreement, related to the sale of all or part of the Company's assets and operations in Argentina.

In May 2015, the Company amended the loan payable repayment schedule and extended the maturity date from June 1, 2016 to August 30, 2016. Pursuant to the amended agreement, the Company was to make repayments of principal and interest in the amount of USD 17,200 per month from June 1, 2015 to August 30, 2016, a USD 700,000 payment on November 30, 2015, a USD 1,000,000 payment on April 15, 2016 and a final payment of approximately USD 389,597 on August 30, 2016. The Company made and applied the monthly USD 17,200 payments from June 1 to December 31, 2015 against accrued interest. The USD 700,000 payment due on November 30, 2015 was not made.

In December 2015, the Company amended the loan agreement whereby $135,337 of accrued and unpaid interest was added to the principal amount of the loan increasing the principal to USD 2,185,337 ($2,834,600). In addition, the loan maturity date was extended from August 30, 2016 to March 31, 2018 and the repayment scheduled was amended to require a USD 700,000 payment on February 28, 2016 or other date being agreed with the lender, repayments of principal and interest in the amount of USD 20,000 per month from April 5, 2016 to March 31, 2018 and a final payment of approximately USD 1,485,337 on March 31, 2018.

The December 2015 amended loan agreement also includes a default provision whereby in the event of a breach of the loan agreement and failure to remedy within 30 days, the interest rate for all overdue interest shall increase from 10% to 20% per annum and the principal amount and overdue interest shall become payable immediately. The December 2015 amended loan agreement also includes a debt-to-equity option whereby in the event of breach of the loan agreement or plan to list the shares of certain subsidiaries on the public market, the lender is entitled to convert the loan to equity of the Company or equity of certain of the Company's subsidiaries, Petrolera Patagonia SRL or Zenith Aran Oil Company, such that the number of shares issued on conversion shall not exceed 29.9% of the issued and outstanding shares of the entity issuing such shares upon the conversion. The fair value of the debt-to-equity option was estimated to be a negligible amount.

An event of default occurred on March 30, 2016, 30 days after the Company failed to make the USD 700,000 payment at which time overdue interest was increased to a rate of 20% per annum and the entire balance of the loan was classified as a current liability. The lender did not exercise the debt-to-equity option.

As at March 31, 2016, $2,834,600 (2015 – $2,166,679) of principal is classified as a current liability; $nil (2016

– $433,336) of principal is classified as long-term and $156,874 (2015 – $166,641) of accrued interest is included in traded and other payables.

The loan agreement was subsequently amended in May 2016 to extend the USD 700,000 principal payment date to June 5, 2016 (Note 28).

b) Euro bank debt

On August 6, 2015, the Company obtained a EUR 220,000 loan ($315,986) from the GBM Banca of Rome. The loan is unsecured, bears fixed interest at 7% per annum and is repayable in 60 monthly payments of principal and interest until August 6, 2020.

As at March 31, 2016, the principal balance of the loan was EUR 194,930 ($288,422) of which $58,953 is classified as a current liability and $229,469 is classified as long-term.

c) Euro bank debt

On December 17, 2015, the Company obtained a EUR 200,000 loan ($301,880) from Credito Valtellinese Bank of Tortona. The loan is unsecured, 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 March 31, 2016, the principal balance of the loan was EUR 200,000 ($282,457) of which $81,594 is classified as a current liability and $200,863 is classified as long-term.

d) Euro loan payable

On October 1, 2015, the Company acquired a co-generation plant (Note 8) from a third party of which EUR 401,148 ($594,943) of the purchase price is in the form of a loan payable to the seller. The loan payable 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.

As at March 31, 2016, the principal balance of the loan was EUR 323,709 ($478,282) of which $234,967 is classified as a current liability and $243,315 is classified as long-term.

e) Cayman loan payable

On November 13, 2015, the Company secured a GBP 20,000,000 ($37,304,000) unsecured loan facility (the "Loan") for general corporate purposes with a Cayman Islands based Fund (the "Lender"). The Loan can be drawn by written notice given by the Company. Subject to a satisfaction of certain conditions precedent and the approval of the Lender, a minimum sum of GBP 100,000 and up to a maximum sum of GBP 2,000,000 for each tranche can be drawn at any time from the date of the Loan agreement for a period of 18 months after such date. The Loan accrues interest at the rate of 12% per annum on the amount drawn and is payable quarterly in arrears. Each outstanding draw down is repayable on the third anniversary of the first draw down date. The Company may prepay the loan, in whole or in part, at any time and without penalty. A one-time fee of GBP 25,000 is payable in cash or by issuing the Lender common shares of the Company. As at March 31, 2016, the Company had not made any draws on the Loan.

14. Convertible notes

	Face value $	Debt component $	Derivative liability $
Balance – March 31, 2014	1,350,169	1,265,789	1,101
Conversion	(539,663)	(331,808)	(102,421)
Modifications and change in fair value	–	(774,583)	260,642
Accretion	–	418,863	–
Foreign exchange	(1,001)	4,385	–
Balance – March 31, 2015	809,505	582,646	159,322
Conversion	(110,330)	(100,578)	(22,686)
Modifications and change in fair value	–	–	221,300
Accretion	–	186,783	–
Foreign exchange	31,740	28,195	–
Balance – March 31, 2016	730,915	697,046	357,936

As at March 31, 2014, the Company held $1,080,000 Swiss Francs ($1,350,169) of unsecured convertible notes bearing interest at 9% per annum, payable in arrears in equal quarterly installments and maturing on January 11, 2015. At any time prior to maturity and at the option of the note holder, the principal and any unpaid interest of a note may be converted into common shares of the Company at a price of $1.50 per share.

On August 21, 2014, the Company reduced the conversion price to $0.215 per share. The effect of the conversion price reduction was not a substantial modification resulting in the de-recognition of the original liability and the recognition of a new liability and has been accounted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be $564,645 on the date of the modification.

On September 12, 2014, $460,000 Swiss Francs ($539,663) principal amount of convertible notes were converted into 2,510,058 common shares and $23,000 of accrued and unpaid interest forgiven resulting in the recognition of a $82,434 loss on conversion of convertible notes in the consolidated statement of loss and comprehensive loss for the year ended March 31, 2015.

On December 12, 2014, the Company extended the maturity date of the convertible notes to January 11, 2016. The effect of the extension was not a substantial modification resulting in the de-recognition of the original liability and the recognition of a new liability. The extension of the maturity date has been accounted for as a modification of the effective interest rate and amortized cost of the debt component and a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be $128,717 on the date of modification.

On March 30, 2015, the Company extended the maturity date of the convertible notes to January 11, 2017. The effect of the extension was not a substantial modification resulting in the de-recognition of the original liability and the recognition of a new liability. The extension of the maturity date has been accounted for as a modification of the effective interest rate and amortized cost of the debt component and a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be $81,221 on the date of modification.

On July 7, 2015, the Company amended the terms of the convertible notes whereby the conversion price was reduced from $0.215 per share to $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 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 amortized 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 $230,873 on the date of modification.

On August 28, 2015, $80,000 Swiss Francs ($110,330) principal amount of convertible notes were converted into 882,640 common shares resulting in the revaluation of the derivative liability component at its fair value of $22,686 and the recognition of a $12,934 gain on conversion of convertible notes in the consolidated statement of loss and comprehensive loss for the year ended March 31, 2016.

The fair value of the derivative liability at modification and year-end dates was determined using the Black-Scholes pricing model based on the following assumptions:

	March 31 2016	August 28 2015	July 7 2015	March 31 2015	March 30 2015	December 12 2014	August 21 2014
Risk free interest rate	0.54%	0.42%	0.47%	0.51%	0.51%	1.01%	1.04%
Expected life	0.78 years	1.38 years	1.52 years	1.78 years	1.79 years	1.08 years	0.32 years
Expected volatility	84%	85%	83%	100%	100%	100%	100%

As at March 31, 2016, the Company held $540,000 Swiss Francs ($730,915) (2015 – $620,000 Swiss Francs ($809,505)) principal amount of unsecured convertible notes. Interest is accrued and presented in trade and other payables in the amount of $314,597 as at March 31, 2016 (2015 – $235,974).

In June 2016, the Company issued 2,730,000 common shares on the conversion of approximately 230,000 Swiss Francs ($300,303) principal amount of convertible notes (Note 28).

15. Bonds

In April and May 2015, the Company completed a non-brokered private placement of an aggregate 290,000 units at a price of GBP 1.00 per unit ($1.86 per unit) for gross proceeds of GBP 290,000 ($538,900). Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants. The bonds are secured by 99% of the oil and gas properties owned by the Company's subsidiary, Canoel Italia SRL. The bonds bear interest at 12% per annum, payable quarterly, until the maturity date 36 months from the date of issuance 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 a finder's fees of GBP 11,250 ($21,169) and granted 67,500 finder's warrants exercisable at $0.25 until for a period of 36 months from the date of issuance. The fair value of finder's warrants was estimated at $1,900 using the Black-Scholes pricing model (Note 4 (e)).

At initial recognition of the units, the fair value of the liability component, net of $23,069 of directly attributable transaction costs, was determined to be $496,202and the warrant portion was the $19,629 residual amount.

Balance – March 31, 2015	$	–
Unit private placement proceeds		538,900
Warrant portion		(19,629)
Finder's fees and warrants		(23,069)
Liability portion		496,202
Interest		65,210
Accretion		3,723
Foreign currency translation		(2,032)
Balance – March 31, 2016	$	563,103

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 properties:

		2016		2015
Balance – beginning of year	$	5,779,799	$	7,277,681
Business combination (Note 8)		11,239		–
Change in estimate		2,162,592		(1,486,574)
Accretion		287,877		556,964
Foreign currency translation		(344,836)		(568,272)
Balance – end of year	$	7,896,671	$	5,779,799

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

	2016	2015
Undiscounted cash flows – uninflated	$17 million	$16 million
Undiscounted cash flows - inflated	$1,223 million	$308 million
Risk free rate	35.2%	28.8%
Inflation rate	25.4%	16.2%
Expected timing of cash flows	16 – 20 years	18 – 23 years

17. Taxes

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

		2016		2015
Expected tax reduction at 26.5% (2015 – 25%)	$	(2,434,954)	$	(569,198)
(Non-taxable) non-deductible expenses		40,961		(47,302)
Changes in enacted rates and other		(440,968)		776,327
Changes in unrecognized deferred tax assets		1,320,905		(60,336)
Tax (reduction) provision	$	(1,514,056)	$	99,491

The tax (reduction) provision for the year ended March 31, 2016 is comprised of $nil (2015 – $nil) of current tax expense and a $1,514,056 deferred tax reduction (2015 – $99,491 deferred tax provision).

Recognized deferred tax liabilities are attributable to the following:

		2016		2015
Property and equipment	$	(2,554,809)	$	(3,886,192)
Decommissioning obligation		1,562,440		1,365,518
Non-capital loss carryforwards		108,802		123,051
Recognized deferred tax liabilities	$	(883,567)	$	(2,397,623)

Deferred tax assets have not been recognized in respect of the following temporary differences as it is not considered probable that sufficient taxable income will allow the deferred tax assets to be utilized and recovered:

	2016	2015
Non-capital loss carryforwards	$ 4,157,336	$ 2,955,114
Share issuance costs	38,670	36,358
Other	336,775	220,404
Unrecognized deferred tax assets	$ 4,532,781	$ 3,211,876

As at March 31, 2016, the Company has accumulated non-capital losses in Canada totaling $15.2 million (2015 – $11.6 million) which expire in varying amounts between 2028 and 2036 and $0.4 million (2015 – $0.5 million) of non-capital losses in Italy.

18. Share capital

(a) Authorized

Unlimited number of voting common shares without par value.
Unlimited number of preferred shares issuable in series and without par value.

(b) Issued

	Number of common shares	**Amount $**
Balance – March 31, 2014	11,252,039	7,151,893
Non-brokered unit private placement (i)	15,529,984	2,329,498
Fair value of warrants (i)	–	(1,090,800)
Conversion of convertible notes (ii)	2,510,058	539,663
Share issue costs (i)	–	(243,698)
Balance – March 31, 2015	29,292,081	8,686,556
Conversion of convertible notes (iii)	882,640	110,330
Non-brokered unit private placement (iv)	2,700,000	270,000
Fair value of warrants (iv)	–	(45,800)
Non-brokered unit private placement (v)	4,214,125	337,130
Fair value of warrants (v)	–	(106,500)
Non-brokered unit private placement (vi)	5,780,688	462,455
Fair value of warrants (v)	–	(180,900)
Settlement of debt (vii)	724,872	66,717
Share issue costs (vi)	–	(21,718)
Balance – March 31, 2016	43,594,406	9,578,270

i) During the year ended March 31, 2015, the Company issued a total of 15,529,984 units at $0.15 per unit for gross proceeds of $2,329,498. Each unit is comprised of one common share and one warrant exercisable at $0.25 per share for a period of 36 months from the date of issuance. The fair value of the warrants was estimated at $1,090,800 using the Black-Scholes pricing model (Note 4 (e)).

In connection with the unit private placement, the Company incurred $45,850 of issuance costs, paid finder's fees of $135,940 and issued a total of 873,868 finder's warrants exercisable at $0.25 for a period of 36 months from the date of issuance. The fair value of finder's warrants was estimated at $61,908 using the Black-Scholes pricing model (Note 4 (e)).

Officers and directors subscribed for an aggregate of 1,716,665 units for gross proceeds of $257,500.

ii) On September 12, 2014, the Company converted $539,663 principal amount of convertible notes into 2,510,058 common shares at a conversion price of $0.215 per share as disclosed in Note 14.

iii) On August 28, 2015, the Company converted $110,330 principal amount of convertible notes into 882,640 common shares at a conversion price of $0.125 per share as disclosed in Note 14.

iv) In September 2015, the Company completed the private placement of 2,700,000 units at $0.10 per unit for gross proceeds of $270,000. Each unit is comprised of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at $0.25 per share for a period of 36 months from the date of issuance. The grant date fair value of the warrants was estimated at $45,800 using the Black-Scholes pricing model (Note 4(e)).

v) In November and December 2015, the Company completed a non-brokered private placement for an aggregate 4,214,125 units at $0.08 per unit for gross proceeds of $337,130. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at $0.25 per share for a period of 36 months from the date of issuance. The grant date fair value of the warrants was estimated at $106,500 using the Black-Scholes pricing model (Note 4(e)).

vi) In January to March 2016, the Company completed a non-brokered private placement for an aggregate 5,780,688 units at $0.08 per unit for gross proceeds of $462,455. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at $0.15 per share for a period of 24 months from the date of issuance. The grant date fair value of the warrants was estimated at $180,900 using the Black-Scholes pricing model (Note 4(e)).

In connection with the private placement, the Company paid finder's fees of $19,618 and issued a total of 82,733 finder's warrants exercisable at $0.15 for a period of 24months from the date of issuance. The fair value of finder's warrants was estimated at $2,100 using the Black-Scholes pricing model (Note 4 (e)).

vii) In March 2016, the Company issued 724,872 common shares at an average price of $0.092 per share for the settlement of $66,717 of debt owed to certain vendors.

19. Warrants

	Number of warrants	Amount $	Weighted average exercise price
Balance – March 31, 2014	2,628,367	487,257	$ 0.85
Unit private placements (Note 18(b)(i))	15,529,984	1,090,800	0.25
Finder's warrants (Note 18(b)(i))	873,868	61,908	0.25
Expired	(1,803,367)	(394,257)	(1.13)
Balance – March 31, 2015	17,228,852	1,245,708	$ 0.25
Bonds units (Note 15)	1,740,000	19,629	0.25
Bonds units finder's warrants (Note 15)	67,500	1,900	0.25
Unit private placements (Note 18(b)(iv) and (v))	5,564,125	152,300	0.25
Unit private placement (Note 18(b)(vi))	5,780,688	180,900	0.15
Finder's warrants (Note 18(b)(vi))	82,733	2,100	0.15
Expired	(825,000)	(93,000)	(0.25)
Balance – March 31, 2016	29,638,898	1,509,537	$ 0.23

As at March 31, 2016, the Company had 29,638,898 warrants outstanding and exercisable at a weighted average exercise price of $0.23 per share with a weighted average life remaining of 1.80 years.

20. Stock options

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

	Number of options	Weighted average exercise price
Balance – March 31, 2014	214,000	$ 1.14
Expired	(39,000)	(1.77)
Balance – March 31, 2015	175,000	1.00
Expired	(175,000)	(1.00)
Balance – March 31, 2016	–	$ –

21. Per share amounts

	2016	2015
Net loss	$ (7,674,448)	$ (2,376,281)
Weighted average number of shares – basic:		
Issued common shares as at April 1	29,292,081	11,252,039
Effect of common shares issued during the year	3,723,640	9,893,479
	33,015,721	21,145,518
Net loss per share – basic and diluted [1]	$ (0.23)	$ (0.11)

[1] The Company did not have any in-the-money convertible notes, warrants and stock options during the years ended March 31, 2016 and 2015. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

22. Finance expense

	2016	2015
Interest expense	$ 615,189	$ 444,292
Accretion of convertible notes (Note 14)	186,783	418,863
Accretion of bonds (Note 15)	3,723	–
Accretion of decommissioning obligation (Note 16)	287,877	556,964
	$ 1,093,572	$ 1,420,119

23. Supplemental disclosure

(a) Employee compensation cost

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

	2016	2015
Operating	$ 982,649	$ 1,289,609
General and administrative	433,127	563,881
Total employee compensation cost	$ 1,415,776	$ 1,853,490

(b) Key management compensation

The Company considers its officers and directors to be key management personnel. As at March 31, 2016, key management personnel included 7 individuals (2015 – 7 individuals).

Key management compensation for the years ended March 31 is comprised of the following:

	2016	2015
Salaries and consulting fees	$ 380,591	$ 234,636
Bonus	–	200,000
Total key management compensation	$ 380,591	$ 434,636

24. Change in non-cash working capital

	2016	2015
Trade and other receivables	$ (135,902)	$ 448,999
Inventory	(190,132)	(14,144)
Prepaid expenses	(164,190)	(12,885)
Prepaid property and equipment insurance	174,850	143,796
Trade and other payables	1,407,023	(188,347)
Total change in non-cash working capital	$ 1,019,649	$ 377,419

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

	2016	2015
Operating	$ 898,470	$ 47,044
Financing	158,784	30,660
Investing	34,395	299,715
Total change in non-cash working capital	$ 1,019,649	$ 377,419

25. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. Related party transactions during the years ended March 31, 2016 and 2015 not disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in general and administrative expenses is $282,367 (2015 – $257,837) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at March 31, 2016, $nil (2015 – $nil) was included in trade and other payables in respect of these charges.

b) Included in interest expense is $nil (2015 – $2,466) on $50,000 Swiss Francs of convertible notes held by a company controlled by a director of the Company, of which $nil is included in trade and other payables as at March 31, 2016 (2015 – $nil). These notes were converted to common shares and the related accrued and unpaid interest forgiven on September 12, 2014 (Note 14).

c) Included in trade and other payables is $52,591 (2015 – $nil) due to an officer and director of the Company in respect of short-term, unsecured, non-interest bearing advances made to the Company.

d) Included in trade and other payables is $8,966 (2015 – 52,313) due to officers and directors of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officers and directors will be reimbursed.

e) Included in trade and other payables is $30,586 (2015 – $nil) due to officers and directors of the Company in respect of salaries.

26. Financial risk management

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

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Company's maximum credit risk exposure is limited to the carrying amount cash of $137,982 (2015 – $936,499) and trade and other receivables of $787,477 (2015 – $713,031).

Cash is held with highly rated Canadian and international banks. Therefore, the Company does not believe these financial instruments are subject to material credit risk.

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

	2016	2015
Oil and natural gas sales	$ 475,219	$ 383,067
Stamp tax and other tax withholdings	216,926	234,394
Goods and services tax	12,261	16,964
Other	83,071	78,606
	$ 787,477	$ 713,031

The receivables related to the sale of oil and natural gas are due from large companies who participate in the oil and natural gas industry in Argentina and Italy. Oil and natural gas sales receivables are typically collected in the month following the sales month. The Company does not anticipate any default or non-performance with respect to the above balances. As such a provision for doubtful accounts has not been recorded.

The Company considers its receivables to be aged as follows:

		2016		2015
Current	$	542,962	$	443,999
90 + days		244,515		269,032
	$	787,477	$	713,031

b) Liquidity risk

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

As at March 31, 2016, the Company had $8,201,167 (2015 – $5,606,441) of current liabilities for which the Company's $137,982 (2015 – $936,499) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company (Note 1).

As of March 31, 2016, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

		Carrying amount	Contractual cash flows	Due on or before March 31 2017	Due on or before March 31 2018	Due between April 2018 and August 2020
Trade and other payables	$	3,266,503	3,266,503	3,266,503	–	–
Oil share agreement		1,027,504	1,027,504	1,027,504	–	–
Loans payable		3,883,761	4,847,545	4,131,854	415,318	300,373
Convertible notes		697,046	872,077	872,077	–	–
Bonds payable		563,103	676,244	64,911	64,911	546,422
	$	9,437,917	10,689,873	9,362,849	480,229	846,795

c) Market risk

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

i) Currency risk

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

	Closing rate		Average rate	
	2016	2015	2016	2015
Argentine Peso	0.0889	0.1438	0.1270	0.1357
US dollar	1.2971	1.2683	1.3114	1.1387
Euro	1.4775	1.3623	1.4476	1.4382
Swiss Franc	1.3535	1.3057	1.3478	1.2248
British Pound	1.8652	1.8834	1.9755	1.8320

The following represents the estimated impact on net loss of a 10% change in the closing rates as at March 31, 2016 and 2015 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	2016	2015
Argentine Peso	$ 57,500	$ (14,100)
US dollar	284,400	270,200
Euro	134,500	10,400
Swiss Franc	104,500	104,500
British Pound	53,300	3,400
	$ 634,200	$ 374,400

ii) Commodity price risk

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

As at March 31, 2016, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the year ended March 31, 2016 of approximately $23,300 (2015 – $49,500) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the year ended March 31, 2016 of approximately $13,100 (2015 – not applicable).

Oil prices in Argentina are the results of formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. As at March 31, 2016, a 5% change in the price of oil would represent a change in net loss for the year ended March 31, 2016 of approximately $64,300 (2015 – $185,600).

iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has fixed interest on note payable (Note 12), loans payable (Note 13), convertible notes (Note 14) and bonds (Note 15) and therefore is not exposed to interest rate risk.

27. 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 can continue to explore and develop its projects to provide returns for shareholders and benefits for other stakeholders. The Company manages its working capital deficiency, long-term debt, and shareholders' deficit as capital.

	2016	2015
Working capital deficiency	$ 6,709,115	$ 3,407,115
Long-term debt	1,236,750	1,015,982
Shareholders' (deficit) equity	(2,278,950)	4,289,088

The Company's cash flows from the Argentinean and Italian operations will be needed in the near term to finance the operations and repay vendor loans. Therefore, the Company's principal source of funds will remain the issuance of common shares. 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 over the Company's ability to continue as a going concern (Note 1).

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

28. Subsequent events

(a) In April and June 2016, the Company completed non-brokered private placements for the issuance of an aggregate 12,086,900 units at $0.08 per unit for gross proceeds of $966,952, of which $133,982 was received in March 2016 and is included in trade and other payables as at March 31, 2016. Each unit is comprised of one common share and one warrant exercisable at $0.15 per share for a period of 24 months from the date of issuance. In connection with the private placement, the Company paid a finder's fees of $40,377 and granted 504,712 finder's warrants exercisable at $0.15 until for a period of 24 months from the date of issuance.

(b) In June 2016, the Company issued 472,500 common shares for the settlement of $45,170 of debt owed to certain vendors.

(c) In June 2016, the Company issued 2,730,000 common shares on the conversion of approximately 230,000 Swiss Francs ($300,303) principal amount of convertible notes (Note 14).

(d) In May 2016, the Company amended the loan payable (Note 13(a)) to extend the payment date of the USD 700,000 principal payment to June 5, 2016. The Company did not make the USD 700,000 payment on June 5, 2016 nor has the lender indicated any intention to convert the outstanding debt to equity. A further amendment to the repayment schedule and terms is being negotiated with the lender.

(e) In July 2016, the Company sold 116,913 shares of GRIT for gross cash proceeds of $10,840.

(f) In June 2016, the Company received notice that the Parliament of the Republic of Azerbaijan ratified REDPSA for certain blocks of Azerbaijan oil fields in which the Company holds an 80% participating interest in current and future production.

(g) In July 2016, the Company established Aran Oil Operating Company Ltd., an 80% owned subsidiary of Zenith Aran, to serve as operator of the REDPSA.

29. Operating segments

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

- Argentina;
- Italy; and,
- Other, which includes corporate assets and the operations in the Canadian, US and Azerbaijan entities. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2016 or 2015.

		March 31, 2016				March 31, 2015			
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Property and equipment	$	3,177,155	11,420,934	-	14,598,089	2,250,254	14,443,268	-	16,693,522
Other assets	$	504,125	958,825	236,102	1,699,052	930,904	1,120,668	503,161	2,554,733
Total liabilities	$	5,377,969	7,134,198	6,063,924	18,576,091	5,184,303	5,468,607	4,306,257	14,959,167
Total capital expenditures	$	(236,515)	(178,406)	-	(414,921)	(929,624)	(240,976)	-	(1,170,600)

		Year ended March 31							
		2016	2015	2016	2015	2016	2015	2016	2015
		Argentina		Italy		Other		Total	
Revenue	$	1,283,940	3,707,073	791,218	1,077,365	-	-	2,075,158	4,784,438
Royalties		115,408	345,132	-	-	-	-	115,408	345,132
Operating and transportation		1,111,690	1,437,731	692,319	375,336	-	-	1,804,009	1,813,067
General and administrative		420,374	641,957	490,020	475,040	2,188,078	1,578,389	3,098,472	2,695,386
Impairment of inventory		228,657	-	-	-	-	-	228,657	-
Depletion and depreciation		64,111	381,294	267,442	286,621	-	-	331,553	667,915
Impairment of property and equipment		-	-	5,025,000	-	-	-	5,025,000	-
Other (income) expenses		(795,768)	88,630	67,771	-	294,988	30,979	(433,009)	119,609
Finance expense		274,486	538,186	121,794	126,716	697,292	755,217	1,093,572	1,420,119
Segment income (loss)	$	(135,018)	274,143	(5,873,128)	(186,348)	(3,180,358)	(2,364,585)	(9,188,504)	(2,276,790)