ZENITH ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS ENDED JUNE 30, 2016

This management's discussion and analysis (the “MD&A”) dated August 27, 2016 of Zenith Energy Ltd. (“Zenith” or the “Company”, is presented in Canadian dollars and should be read in conjunction with the June 30, 2016 unaudited condensed interim consolidated financial statements as well as the March 31, 2016 audited consolidated financial statements of Zenith, together with the accompanying notes.

The consolidated financial statements have been prepared by management and approved by Zenith’s Board of Directors on the recommendation of the Audit Committee. These statements are based on certain estimates and assumptions and involve risks and uncertainties. Actual results may differ materially. The financial data included in this MD&A is in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective as at April 1, 2015. The Company has presented its financial statements on a going concern assumption, which assumes that the Company will be able to continue to finance its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Refer to the Business Risks and Uncertainties section of this MD&A for additional information related to identified risks, estimates and uncertainties.

The functional currency of the Company is the Canadian dollar (“CAD”); the functional currency Company’s Argentine subsidiaries is the Argentine Peso; the functional currency of the Company’s Italian subsidiary is the Euro; the functional currency of the Company’s United States subsidiaries is the United States dollar and the functional currency of the Company’s British Virgin Islands subsidiary is the New Manat. The Company’s presentation currency is the CAD. In this MD&A, unless otherwise noted, all dollar amounts are expressed in CAD. References to “USD” are to United States dollars, references to “€” are Euros and references to "GBP" are to Britain Pounds.

Additional information related to the Company's business and activities can be found on SEDAR at www.sedar.com.

BOE Presentation – Production information is commonly reported in units of barrels of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet ("mcf") to one barrel of oil ("bbl"). This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Special Note Regarding Non-IFRS Measures – This MD&A may include references to certain financial measures, as described below, which do not have standardized meanings prescribed by IFRS, however, as these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors and they are measures that the Company uses to evaluate its performance. Investors are cautioned that these non-IFRS measures should not be construed as an alternative to the measures calculated in accordance with IFRS, given their non-standardized meanings; they may not be comparable to similar measures presented by other issuers. The term “field netback” is defined as petroleum and natural gas sales less royalties and less operating and transportation costs. The term “funds from (used in) operations”, defined as the cash flow from operating activities, before the change in non-cash working capital and abandonment expenditures, should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with IFRS as an indicator of performance. The Company’s determination of funds from operations may not be comparable to that reported by other companies.

Cautionary Statement regarding Forward-Looking Information

Certain information in this MD&A is forward-looking and related to anticipated financial performance, events and strategies. When used in this context, words such as “will”, “anticipate”, “believe”, “plan”, “intend”, “target” and “expect” or similar words suggest future outcomes. By their nature, such statements are subject to significant risks, assumptions and uncertainties, which could cause the Company’s actual results and experience to be materially different than the anticipated results. In particular, forward-looking information and statements include, but are not limited to: (i) expectations related to the two properties producing oil in the Patagonia region of Southern Argentina, owned by Petrolera Patagonia Srl; (ii) expectations related to crude oil and petroleum products prices and demand; (iii) the state of capital markets; (iv) expectations related to operating costs in Argentina and Italy; (v) variations in the Peso, US dollar, Euro, and Canadian dollar exchange rates; (vi) expectations related to security granted over oil and gas assets in Argentina pursuant to a loan agreement; (vii) expectations related to regulatory approvals; (viii) management’s analysis of applicable tax legislation; (ix) expectations that the currently applicable and proposed tax laws will not change and will be implemented; (x) expectation that management will continue to focus its efforts towards acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator at least for the initial exploration period; (xi) expectation that management will consider acquiring additional producing assets; (xii) the capital expenditures required in order to re-commence production on both the Torrente Vulgano and Canaldente properties; (xiii) the ability of the Company to re-commence production on both the Torrente Vulgano and Canaldente properties by late 2016; (xiv) the price of natural gas in Italy; (xv) the ability of the Company to comply with certain regulatory requirements in Italy; (xvi) the Company’s ability to increase its oil and gas production by early 2016; and (xvii) business strategy and outlook.

These statements are based on certain assumptions and analysis made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate. The material factors and assumptions used to develop these forward-looking statements include, but are not limited to: (i) pricing of crude oil and petroleum products set by the government of Argentina; (ii) increased competition; (iii) assumption that operating costs in Argentina and Italy may be reduced in future months and that the oil price in Argentina will continue to improve; (iv) additional financing of the Company is subject to the global financial markets and economic conditions; (v) the Company will evaluate certain properties located within Argentina and will focus on managing the properties acquired in 2010 with the intention to increase production and cash flows; (vi) assumptions related to international oil and natural gas prices; (vii) ability to obtain regulatory approvals; (viii) costs of exploration and development; (ix) availability and cost of labour and management resources;
(x) performance of contractors and suppliers; (xi) availability and cost of financing; and (xii) the Company’s business strategy and outlook.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Company's expectations. Such risks and uncertainties include, but are not limited to risks and uncertainties relating to: (i) volatility of and assumptions regarding commodity prices; (ii) product supply and demand; (iii) market competition; (iv) risks inherent in the Company’s operations; (v) potential disruption or unexpected technical difficulties in developing or maintaining facilities; (vi) risks associated with technology; (vii) Company’s ability to generate sufficient cash flow from operations to meet its current and future obligations; (viii) the Company’s ability to secure external sources of debt and equity as needed; (ix) changes in royalty, tax, environmental, greenhouse gas, carbon, accounting and other laws or regulations or the interpretation of such laws or regulations;
(x) political and economic conditions in the countries in which the Company operates; (xi) terrorist threats; (xii) risks associated with potential future lawsuits and regulatory actions made against the Company; (xiii) the performance of counterparties in meeting their obligations under agreements; (xiv) economic conditions; (xv) equipment and labour shortages and inflationary costs; (xvi) fluctuations in foreign exchange rates; (xvii) the effect of weather conditions on operations and facilities; and (xviii) stock market volatility.

Readers are cautioned not to place undue reliance on forward-looking statements as actual results could differ materially from the plans, expectations, estimates or intentions expressed in the forward-looking statements. Forward-looking statements are provided for the purpose of presenting information about management’s current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes.

Except as required by law, the Company disclaims any intention and assumes no obligation to update any forward-looking statement.

NATURE OF OPERATIONS, ACQUISITON AND EXPLORATION ACTIVITIES

The Company was incorporated under the Business Corporations Act (British Columbia) (“BCBCA”) on September 20, 2007. The registered business address is 15th Floor, Bankers Court, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. Zenith’s website is www.zenithenergy.org. The Company is involved in the exploration for, development of and production of petroleum and natural gas in Argentina and Italy and exploration for oil & gas in central Asia and Africa.

On March 10, 2010, Zenith formed Ingenieria Petrolera del Rio de la Plata S.r.l. (“IPRP”), a wholly owned subsidiary of Zenith. IPRP was initially incorporated in Buenos Aires, Argentina, to negotiate management agreements to operate existing producing properties. However, as described in following paragraphs, after Petrolera Patagonia S.r.l. was acquired, management saw no immediate needs for IPRP and the company was kept in a dormant state and held in trust by Zenith’s trustees in Argentina until late 2011.
On July 20, 2010, Zenith incorporated a wholly owned US subsidiary, Ingenieria Petrolera Patagonia Ltd. (“IPP”), to act as the potential acquirer of two US based companies controlling Central Patagonia S.r.l., the owner of two producing oil fields in the Chubut Province in Argentina.

On July 22, 2010, Zenith acquired two US based companies, namely Central Patagonia Corporation (renamed Petrolera Patagonia Corporation or “PPC”) and CPC Holdings (renamed PP Holdings Inc. or “PPH”) owning respectively 95% and 5% of Central Patagonia
S.r.l. (renamed Petrolera Patagonia S.r.l. or “PPS”), thereby acquiring two adjacent oil producing properties in Argentina.

On March 23, 2011, Zenith established Canoel Italia S.r.l. ("Italia Srl"), a wholly owned subsidiary of the Company, so that it would have an operating entity if the Company was awarded the oil and gas properties being posted for auction by the Ministry of Economic Development.

On August 27, 2011, Italia Srl was awarded two gas properties, which were previously on production but currently shut-in, at the auction. Zenith's bid was accepted on the basis of its technical presentation and proposed program to place the properties back on stream. The properties are Torrente Vulgano, located in the Puglia region, and Canaldente, located in the Basilicata region. Both regions are located in southern Italy, which is where the majority of hydrocarbons are produced.

In October 2011, Zenith recognized the opportunity to implement its own completion operations and consequently decided to use the dormant company IPRP for these operations. Management commenced the process to transfer the shares of IPRP from Zenith's trustees to PPC (95%) and to PPS (5%). This process was completed in May 2012.

In mid-2012, in line with the Company's strategy to increase its involvement in Italy through its Italian subsidiary, Zenith commenced negotiations to purchase producing and exploratory permits from a well-established gas producing company, Mediterranean Oil & Gas Plc, a British company with activities in Italy, France and Malta whose shares trade on the London AIM Stock Exchange.

On June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties (the "Assets") from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc (collectively, "MOG") after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership. The Assets are comprised of (i) 6 operated onshore gas production concessions: Masseria Grottavecchia (20% working interest), San Teodoro (100% working interest), Torrente Cigno (45% working interest), Misano Adriatico (100% working interest), Sant'Andrea (40% working interest) and Masseria Petrilli (50% working interest); (ii) 3 non-operated onshore gas production concessions: Masseria Acquasalsa (8.8% working interest), Lucera (13.6% working interest) and San Mauro (18% working interest) (collectively, the "Gas Licenses"); (iii) an operated exploration permit: Montalbano (57.15% working interest) (the "Exploration Permit"); and (iv) 3 exploration permit applications: Serra dei Gatti (100% working interest), Villa Carbone (50% working interest) and Colle dei Nidi (25% working interest) (the "Exploration Applications").

Most of the Gas Licenses are located onshore in southern Italy, in the Regions of Puglia, Basilicata, Molise, Abruzzo and Marche. The Exploration Permit and Exploration Applications are located in southern Italy and cover an area of 1,285 square kilometres.

On October 1, 2015, the Company acquired co-generation equipment and facilities from the owner of the plant that treats gas from the Masseria Vincelli 1 well in the Torrente Cigno concession in Italy. The acquisition will enable the company to produce electricity from the gas produced by the Masseria Vincelli 1 well and sell it directly into the national energy grid.

In September 2015, the Company opened an office in Baku, the capital of Azerbaijan. In October 2015, the Republic of Azerbaijan issued a Presidential Decree which authorized the State Oil Company of the Republic of Azerbaijan ("SOCAR") to negotiate a Rehabilitation, Exploration, Development and Production Sharing Agreement ("REDPSA") with Zenith pursuant to which Zenith would receive the rights and obligations to an 80% participating interest in current and future production from three producing onshore oil fields named Muradkhanli, Jafarli and Zardab, known as the Muradkhanli Block (the "Block"), covering an area of 642.4 square kilometres and currently producing approximately 350 barrels of crude oil per day. The REDPSA was ratified by the Parliament of the Republic of Azerbaijan in June 2016. See Operational Update – Azerbaijan for further details.

The Company conducted the following development and exploration activities in Argentina and Italy as noted below:

	Three months ended June 30	
Capital additions	**2016**	2015
Argentina	**$ -**	$ 80,977
Italy	**19,969**	30,925
	$ 19,969	$ 111,902

Highlights for the three months ended June 30, 2016 include the following:

Operational:

- During the three months ended June 30, 2016, the Company sold 1,161 bbls of oil from its Argentine properties versus 11,119 bbls of oil in the 2015 comparative period, a decrease of 89.5%.
- During the three months ended June 30, 2016, the Company sold 27,897 mcf of natural gas and 184 bbls of condensate from its Italian properties as compared to 31,119 mcf of gas and 294 bbls of condensate in the 2015 comparative period, a decrease of 10.3% and 37.4% respectively.

- On June 14, 2016, the Company received notice that the Parliament of the Republic of Azerbaijan ratified the REDPSA into a law of the country and for the three Azerbaijan oil fields, Muradxanli, Cafarli and Zardab in which the Company has the rights and obligations for an 80% participating interest in current and future production and established Aran Oil Operating Company Ltd., an 80% owned subsidiary of Zenith Aran, to serve as operator of the REDPSA.

Financial:

- The Company generated oil and natural gas revenue, net of royalties, of $100,402 and $140,813 of electricity revenue in the three months ended June 30, 2016 versus $899,207 and $nil, respectively, in the comparative period.
- The Company incurred $19,969 of capital expenditures in the three months ended June 30, 2016. The primary focus of these expenditures related to the Company's Italian properties.
- On 11 April 2016 the Company completed the private placement of 6,674,775 shares at CAD$0.08 per unit for gross proceeds of CAD$533,982. Of the 6,674,775 shares, 5,000,000 shares were issued forming part of a unit comprising one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD$0.15 per common share for a period of 24 months from the date of issuance. The remaining 1,674,775 shares were not issued with accompanying warrants. The Company also paid aggregate finders' fees of CAD$28,000.
- On 21 April 2016, the Company completed the private placement of 3,892,875 shares at CAD$0.08 per unit for gross proceeds of CAD$311,430. Each unit is comprised of one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common chare at CAD$0.15 per common share for a period of 24 months from the date of issuance. The Company also paid aggregate finders' fees of CAD$14,376.95 and issued 179,712 warrats to certain arm's-length parties in the connection with the Private Placement.
- In May 2016, the Company amended the loan payable repayment schedule. Pursuant to the amended agreement, the Company will make a US$700,000 payment upon the successful listing and raising of capital from the listing. A final payment of approximately US$1,485,336 is to be paid on April 30, 2018. Except as specifically stated before, the agreement of December 2015 entered into by the parties has not been modified, revoked or suspended and remains in full force and effect.
- On 9 June 2016, the Company issued 2,730,000 shares at a deemed price of $0.11 per share, 312,500 shares at a price of $0.10 per share and 160,000 shares at a price of $0.087 per share to certain debtholders and creditors of the Corporation to settle debts owing by the Company, representing in aggregate of $345,470.
- On 16 June 2016 the Company closed a non-brokered private placement of 1,519,250 shares of the Company at a price of $0.08 per Unit for aggregate gross proceeds of $121,540. Each unit is comprised of one common share and one common share purchase warrant. Each Warrant will be exercisable for one Common Share at a price of $0.15 per share for a period of 24 months from the date of closing of the offering.

Corporate and Administrative:

- The Company continues to improve its accounting and administrative functions within the organization.

Subsequent event highlights:

- In August 2016, subject to approval by the TSX Venture Exchange, the Company entered into an agreement to amend the terms of its unsecured convertible notes from January 11, 2017 to January 11, 2018. See Subsequent Events for additional details.
- On 11 of August 2016 the handover of the technical assets of the three fields, Muradxanli, Cafarli and Zardab in Azerbaijan was completed and the Company commenced production as the new operator on 11 August 2016.
- In August 2016 the Company amended the repayment of the USD 700,000 of the USD loan to October 15, 2016.

OPERATIONAL UPDATE

ARGENTINA

The main assets of PPS on which the Company has focused its development efforts, are two producing fields, Alberto and Don Ernesto, (the "Producing Fields"). The two Producing Fields are located in the Patagonia region of Southern Argentina, and specifically in the San Jorge basin, Chubut Province, within the area of Comodoro Rivadavia. The ownership of these two fields were granted to PPS under old mining codes (the "Mining Codes") under which the licenses do not have an expiry date. The wells on the Producing Fields are connected to battery tanks through existing infrastructure, which is now partially owned by PPS.

The Company's share of estimated total proved plus probable oil net reserves were assessed at 545,000 bbls as of March 31, 2016.

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves.

Oil prices in Argentina were the results of complicated formulas that are set by refineries based on instructions or decrees from the government as crude oil and petroleum products prices in Argentina are set by the Government at variable levels. The price for the oil produced in the Chubut province, called Escalante, which represents the largest quantity of oil produced in Argentina, has gradually increased from US$42.00 per bbl in early 2010 to US$63.00 per bbl in December 2013 followed by an increase to US$67.00 per bbl for the majority of 2014 and a decrease to an average of US$60.00 per bbl in 2015. In December 2015 through March 2016, Escalante crude was set at US$59 per bbl.

ITALY

In August 2009, the Italian Ministry of Economic Development posted an invitation for bidding on three previously producing gas properties owned and operated by Eni, the Italian multinational oil and gas company. Zenith's wholly owned subsidiary, Canoel Italia Srl ("Canoel Italia"), participated in the bidding process for two properties and was later selected as one of the finalists for both.

On August 30, 2011, the Company announced that the Italian "Ministero per lo Sviluppo Economico" (the Ministry of Economic Development) confirmed in writing that Zenith's technical submission and proposal to re-establish production from the two properties was successful.

These two natural gas properties are in proximity to each other and are located in southern Italy, an area which is currently producing a large portion of Italian hydrocarbons. The first property, named "Torrente Vulgano", is located in the Puglia Region, while the second one, named "Canaldente", and is located in the Basilicata Region. Both properties are already connected to the Italian national gas distribution grid; therefore, there is no need to install new gas pipelines.

The Torrente Vulgano and Canaldente properties were previously produced by Eni. Before the agreement to return the field to the Ministry of Economic Development, in the last 4 years of production (1997-2000), the Torrente Vulgano property was producing an average of 7,900 standard cubic meters (m3) per day (278,949 standard cubic feet (mcf) per day, using a conversion rate of 1 m3 = 35.31 mcf).

Canoel Italia will have to comply with certain Italian regulatory obligations before field start-up. Production will commence after all the necessary approvals have been received, which the Company expects to occur by late 2016. However, there are no assurances that production of the Torrente Vulgano and Canaldente properties will be at the same levels that they were previously producing. It is worth noting that the Canaldente reservoir appears to be a good candidate for gas storage when the well will be eventually shut-in at the end of commercial production.

On August 27, 2011, Canoel Italia was approved in its role as operator by the Italian relevant authorities and is currently submitting environmental reports and conducting the final assessment of on-site equipment.

On June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership.

On October 1, 2015, the Company acquired co-generation equipment and facilities which will enable the company to produce electricity from the gas produced by the Masseria Vincelli 1 well and sell it directly into the national energy grid.

The Company's share of estimated total proved plus probable natural gas net reserves were assessed at 16,622 Mmscf and condensate net reserves were assessed at 261 Mbbls as of March 31, 2016.

AZERBAIJAN

On June 8, 2015, the Company and SOCAR executed a confidential memorandum of understanding ("MOU") regarding the Muradhanli Block. Formal approval of the MOU and permission to disclose was subsequently granted by the President of Azerbaijan through Decree No. 1439 dated October 7, 2015 ("Presidential Decree") which authorised SOCAR to prepare and execute a REDPSA for the Muradhanli Block between the Company and SOCAR on behalf of the Republic of Azerbaijan.

The REDPSA was executed on March 16, 2016 between SOCAR, Zenith Aran and SOCAR Oil Affiliate ("SOA"), a 100% owned subsidiary of SOCAR. The REDPSA became effective on June 20, 2016, upon ratification by the Parliament of the Republic of Azerbaijan whereby the REDPSA and the Company's rights and obligations under the REDPSA became binding law in Azerbaijan.

The REDPSA covers approximately 642 square kilometres (or 248 square miles) and include the active Muradkhanli, Jafarli and Zardab oil fields located in the Lower Kura Region, about 300 kilometres inland from the city of Baku, Azerbaijan. Pursuant to the REDPSA, the Company holds an 80% participating interest both the Contract Rehabilitation Area and the Contract Exploration Area; SOA holds the remaining 20% participating interest. Together, the Company and SOA will form the contractor group.

The term of the Contract Rehabilitation Area portion of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's rehabilitation and production program which occurred in August 2016. The term of the Contract Exploration Area portion of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's development program. The term of each Area may be extended by an additional five years at the option of SOCAR

On 14 June 2016 the Agreement on the Rehabilitation, Exploration, Development and Production Sharing ("REDPSA") for the Block Including the Muradkhanly, Yafarli and Zardob Oil Fields in the Republic of Azerbaijan has been ratified by the Azerbaijan Parliament.

On 15 July 2016 the Company established Aran Oil Operating Company Ltd., an 80% owned subsidiary of Zenith Aran, and 20% owned by SOCAR, to serve as operator of the REDPSA

On 25 July 2016 the President of the Republic of Azerbaijan signed the REDPSA into law, after the approval by Parliament on the 14th of June 2016.

On 11 August 2016 the handover of the Azerbaijan assets, started in June 2016 and virually finished on the middle of July 2016, was formally completed on 11 August 2016 with the necessary signatures on related documents.

On 11 August 2016 the Company commenced crude oil production of approximately 300 barrels of oil per day in Azerbaijan under Zenith's banner.

OTHER ACTIVITIES

In addition to its activities discussed above, the Company is actively pursuing the acquisition of other oil and gas producing properties in Italy, Albania, Oman and Argentina in order to provide cash flow to fund its operations, exploration prospects elsewhere in the world and financing for future acquisitions.

In May 2016, the Company received written confirmation of its successful tender for an Albanian exploration block (Block C) from Agjencia Kombëtare e Burimeve Natyrore (AKBN), the Albanian National Agency of Natural Resources of Tirana, a wholly-controlled government agency of the Albanian Ministry of Energy, which is responsible for the development and control of natural resources within the Albanian territory. Block C covers an area of 222,395 acres (347.5 square miles or 900 square kilometers) and is located south of the city of Durres, in the central region of the Albanian coast. The award is conditional to the negotiation of a petroleum agreement, and subsequent government and board of director approvals. Zenith will now work with AKBN to negotiate and execute a production sharing contract. The Company will have seven years to conduct initial exploration activities, which allows the financial commitments to be largely deferred. Management considers this deferral of costs advantageous given the projected demand for new reserves over the longer term and the outlook for world pricing beyond 2020.

FINANCIAL PERFORMANCE

The following table summarizes key financial indicators for the three months and year ended June 30:

	Three months ended June 30	
	2016	2015
Oil and gas revenue, net of royalties ($)	**100,402**	899,027
Oil and gas revenue, net of royalties – per boe ($)	**34.16**	54.16
Total daily oil and gas sales volumes per boe	**32**	182
Electricity revenue($)	**140,813**	-
Electricity daily gas sales volumes per mcf ($)	**7.68**	-
Daily electricity gas sales volumes per mcf	**201**	-
Net income (loss)	**617,418,986**	(348,015)
Net income (loss) per share – basic ($)	**11.56**	(0.01)

Net income (loss) per share – diluted ($)	**6.49**	(0.01)
Capital expenditures ($)	**19,969**	111,902
Weighted average number of shares – basic and diluted	**53,429,628**	29,292,081

Production

	Three months ended June 30	
	2016	2015
Sales volumes		
Oil and gas sales volumes		
Oil (bbls) (1)	**1,161**	11,119
Condensate (bbls) (2)	**184**	294
Gas (mcf) (2)	**9,561**	31,119
Total oil and gas sales volumes (boe)	**2,939**	16,599
Electricity (gas) sales volumes (mcf)	**18,336**	-
Total sales volumes (boe)	**5,995**	16,599
Daily sales volumes		
Daily sales volumes		
Oil (bbls/day) (1)	**13**	122
Condensate (bbls/day)	**2**	3
Gas (mcf/day)	**105**	342
Total daily oil and gas sales volumes (boe/day)	**32**	182
Daily gas sales volumes for electricity (mcf/day)	**201**	-
Total daily sales volumes (boe/day)	**66**	182

Oil Volumes

At the end of June 2016, there were 2,462 bbls of unsold oil production held in inventory which were sold in subsequent months. Total oil sales, transfers of produced volumes to Termap Oil Storage and oil held in inventory at the end of the period correspond to an average daily production rate for the three months ended June 30, 2016 of 40 bbls of oil per day. The average daily production rate for the three months ended June 30, 2015 was 112 bbls of oil per day.

Oil sales volumes decreased by approximately 89.5% from 11,119 bbls in the first quarter ended June 30, 2015 to 1,161 bbls in the first quarter ended June 30, 2016. The decrease in oil sales in the first quarter ended June 30, 2016 was primarily due to the due to an Argentine industry-wide reduction in oil exports as well as lower domestic consumption in the period. In addition, management is trying to improve oil production fighting the consequences of the ecological disaster that occurred in 2015.

Gas Volumes

Gas sales volumes decreased by approximately 10.36% from 31,119 mcf in the first quarter ended June 30, 2015 to 27,893 mcf in the first quarter ended June 30, 2016. The decrease is due to a temporary interruption of production for required maintenance during May and June April 2016 at the Lucera and Acquasalsa concession.

Gas produced from the Torrente Cigno concession is used to produce electricity. Prior to October 1, 2015, the Company sold its 45% share of this gas to the previous electricity producer and included such sales in oil and gas revenues. Following the Company's acquisition of co-generation equipment and facilities on October 1, 2015, the Company became the new electricity producer and now classifies its 45% share of Torrente Cigno gas production as gas sales volumes for electricity. Daily gas sales volumes for electricity from Torrente Cigno were 201 mcf per day in the fourth quarter ended March 31, 2016 versus 162 mcf/day in the October 1, 2015 to March 31, 2016 period. Daily volumes were lower in the October 1, 2015 to March 31, 2016 period is due to a temporary suspension in production for the majority of November 2015 resulting from unscheduled maintenance to resolve issues with pressure control valves.

Condensate Volumes

Condensate sales volumes decreased by approximately 37.29% from 294 bbls in the first quarter ended June 30, 2015 to 184 bbls in the first quarter ended June 30, 2016. The decrease is due to the deferral of delivery of the production for the month of June, which was delivered in the next period, and to lower the contraction in production from the Torrente Cigno field, to.

Revenue

	Three months ended June 30	
	2016	2015
Commodity Prices		
Oil and gas prices		
Oil ($/bbl)	**63.08**	72.27
Condensate ($/bbl)	**120.75**	80.19
Gas ($/mcf)	**0.51**	4.63
Total oil and gas ($/boe)	**34.16**	30.61
Electricity ($/mcf)	**7.68**	-
Total ($/boe)	**40.24**	30.61
Revenues ($)		
Oil and gas revenue		
Oil (Argentina)	**73,255**	803,577
Oil (Azerbaijan)	**-**	-
Condensate (Italy)	**22,223**	23,567
Gas (Italy)	**4,924**	144,205
Total oil and gas ($/boe)	**100,402**	971,349
Electricity ($/mcf)	**140,813**	-
Total ($/boe)	**241,214**	971,349

Oil Revenue

Gross oil revenue earned in Argentina was $73,255 for the three months ended June 30, 2016 versus $803,577 in the comparative three months ended June 30, 2015. The decrease in oil revenue in the 2016 period is due to an Argentine industry-wide reduction in oil exports as well as lower domestic consumption in the period. In addition, management is trying to improve oil production fighting the consequences of the ecological disaster that occurred in 2015.

There was no attributable oil production from the Company's Azerbaijan assets during the quarter.

Condensate Revenue

The price per bbl received for condensate during the three months ended June 30, 2016 was $120.75 per bbl as compared to $80.19 per bbl earned on condensate sales during the three months ended June 30, 2015. The condensate price per bbl is higher in the comparative June 30, 2015 period due to an increase in the base price of Brent crude which is used in the formulas to establish the price of condensate.

Gas and Electricity Revenue

The price per mcf received for natural gas is higher in the three months ended June 30, 2016 $4.97/mcf, as compared to the comparative in June, 30, 2015 $4.63/mcf due primarily to the effect of gas sales volumes from the Torrente Cigno concession which the Company sold to an electricity producer until September 30, 2015.

Until January 1, 2016, gas prices were also impacted by fluctuations in the base price of Brent crude which is used in the formulas to establish the price of natural gas resulting in a lower gas sales price in the first half of fiscal 2016 due to the continued decline in the price of Brent crude. As of January 1, 2016, gas prices are based on the European gas price which has also declined since 2015.

The Company acquired the co-generation plant from the previous electricity producer as of October 1, 2015. Although the Company continues to supply its Torrente Cigno gas volumes to the co-generation plant, as plant owner, the Company now earns the higher electricity rate on those gas volumes. During the three months ended June 30, 2016 the Company earned $140,813, of which equates to $7.68/mcf. The average of the three months electricity price for the three months ended June 30, 2016 remained fairly stable in the market price of electricity in Italy.

Royalties and Operating Expenses

	Three months ended June 30	
	2016	2015
Royalties ($)	**7,500**	72,322
% of Argentine revenues [1]	**9%**	9%
$/bbl of oil	**6.50**	6.50
$/boe (total Company)	**1.25**	4.36
Operating and transportation ($)		
Argentina	**157,172**	326,927
Azerbaijan	**110,056**	-
Italy	**42,169**	49,857
Total	**309,397**	376,784
Argentina $/bbl	**135.34**	29.40
Italy $/boe	**8.72**	9.10
Total $/boe	**51.61**	22.70

[1] Royalties are charged on Argentine oil revenues only.

Royalties

Royalties in the three months ended June 30, 2016 are not comparable to the three months ended June 30, 2015 due to the lack of sales during the period.

Operating and transportation costs

Argentina operating costs per bbl were lower in the three months ended March 31, 2016 due to a decrease in maintenance and electricity costs.

Operating costs per boe for the Italian properties were lower in the three months ended June 30, 2016 versus the 2015 comparative period due a decrease in joint venture concession expense as a result of operational efficiencies and continued monitoring of operations.

Netbacks

	Three months ended June 30	
	2016	2015
Argentina ($/bbl)		
Revenue	**63.08**	72.27
Royalties	**(6.50)**	(6.50)
Operating expenses	**(135.34)**	(29.40)
Field netback	**(78.76)**	36.37
Italy ($/boe)		
Revenue	**34.75**	30.61
Operating expenses	**(8.72)**	(9.10)
Field netback	**26.03**	21.51
Total Company ($/boe)		
Revenue	**40.24**	58.52
Royalties	**(1.25)**	(4.36)
Operating expenses	**(51.61)**	(22.70)
Field netback	**(12.62)**	31.46

General and Administrative Expenses ("G&A")

General and administrative expenses for the three months and year ended March 31 are comprised of the following:

	Three months ended June 30	
	2016	2015
Professional fees	**58,492**	152,826
Office	**103,214**	173,121
Administrative	**64,652**	98,540
Salaries and benefits	**173,597**	162,534
Travel	**203,537**	104,541
	603,492	691,562

G&A expenses decreased by 13% in the three months ended June 30, 2016 versus the 2015 comparative period.

Professional fees were higher in the three months ended June 30, 2016 due to business development and fundraising activities. Salaries and benefits were higher in the three months ended June 30, 2015 due bonuses paid to senior executives in that year. Instead there were no bonuses paid during the three months ended June 30, 2016. Office expenses were higher in the three months ended June 30, 2016 than the 2015 comparative periods due to an increase in Canadian and Argentine office associated with the increase in corporate activities. Travel costs were higher in the three months ended June 30, 2016 due to an increase in travel activities for the conclusion of negotiation in Azerbaijan.

No general and administrative expenses were capitalized in the three months ended June 30, 2016 and 2015.

Depletion and depreciation

	Three months ended June 30	
	2016	2015
Argentina	**9,577**	36,353
Italy	**43,733**	64,288
Total	**53,310**	100,641
Argentina $/bbl	**8.25**	3.27
Italy $/boe	**9.05**	11.73
Total $/boe	**8.89**	6.06

The depletion rate for Argentine properties in the three months ended June 30, 2016 is lower than the comparative 2015 period due to the decrease in oil production in the 2016 period.

The depletion rate for the Italian properties in the three months ended June 30, 2016 is lower than comparative 2015 period due to the impairment of the Italian assets calculated in the year 2016.

The Company did not identify any indicators of impairment with respect to its Italian or Argentine CGUs as at June 30, 2016.

Net Profit (loss)

The Company reported a net profit of $609,069,024 for the three months ended June 30, 2016 versus a net loss of $348,015 for the three months ended June 30, 2015 due to the Gain on business combination from the Azerbaijan asset of $618,386,645.

SUMMARY OF QUARTERLY INFORMATION

The following is a summary of selected financial information for the Company for the past eight quarters.

	Net revenue $	Net income (loss) $	Per share * $
2017			
First quarter ended June 30, 2016	241,215	617,418,986	0.11
2016			
Fourth quarter ended March 31, 2016	251,319	(5,568,266)	(0.14)
Third quarter ended December 31, 2015	284,408	(889,470)	(0.03)
Second quarter ended September 30, 2015	524,996	(868,697)	(0.03)
First quarter ended June 30, 2015	899,027	(348,015)	(0.01)
2015			
Fourth quarter ended March 31, 2015	987,353	(984,864)	(0.04)
Third quarter ended December 31, 2014	1,369,251	(179,532)	(0.01)
Second quarter ended September 30, 2014	965,739	(456,928)	(0.02)
First quarter ended June 30, 2014	1,116,963	(754,957)	(0.05)

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

- Net revenues decreased in the first quarter 2017 due to a lack of oil sales. Net loss excluding Gain on business acquisition increased due to the decrease in net revenues combined with an increase general and administrative expenses.
- Net revenue decreased in the fourth quarter 2016 due to a lack of oil sales offset by an increase in electricity revenue. Net loss increased due primarily to an increase in G&A expenses and inventory impairment and $5,025,000 of impairment related to the Company's Italian properties.
- Net revenue decreased in the third quarter ended December 31, 2015 due to a decrease in sales volumes, primarily oil sales volumes, combined with a decrease in the price earned for oil. Net loss increased due to the decrease in net revenues combined with an increase general and administrative expenses.
- Net revenue decreased in the second quarter ended September 30, 2015 due to a decrease in sales volumes and in commodity prices for natural gas and NGLs. Net loss increased due to the decrease in net revenues combined with an increase in operating costs.
- Net revenue decreased in the first quarter ended June 30, 2015 due to a decrease in both sales volumes and commodity prices. Net loss decreased as compared to the previous quarter due a decrease in general and administrative expenses and a net foreign exchange gain in the quarter.
- Net revenue decreased in the fourth quarter ended March 31, 2015 due to a decrease in oil sales volumes. Net loss increased due to the decrease in net revenue combined with increases in general and administrative expenses, unrealized loss on foreign exchange and finance expenses.
- Net revenue increased and net loss decreased in the third quarter ended December 31, 2014 due primarily to an increase in oil sales volumes in Argentina.

LIQUIDITY RISK AND CAPITAL RESOURCES

As at June 30, 2016, the Company has a working capital deficit of $6,191,485 (March 31, 2016 – $6,709,115), negative cash flows from operating activities of $880,959 (March 31, 206 - $2,473,757) and an accumulated surplus of $603,773,058 (March 31, 2016 deficit – ($13,645,926)). During the three months ended June 30, 2016, the Company incurred $309,397 on operating items and $19,969 on capital expenditures.

As at June 30, 2016, the Company had $7,747,480 (March 31, 2016 – $8,201,167) of current liabilities for which the Company's $78,235 (March 31, 2016 – $137,982) cash balance is insufficient to settle the current liabilities.

As of June 30, 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 June 30 2017	Due on or before June 30 2018	Due between July 2018 and August 2020
Trade and other payables	$	3,103,722	3,103,722	3,103,722	–	–
Oil share agreement		1,030,514	1,030,514	1,030,514	–	–
Loans payable		3,791,127	4,725,331	4,130,907	343,256	251,168
Convertible notes		401,610	415,271	415,271	–	–
Bonds payable		540,879	613,879	60,369	553,510	-
	$	8,867,852	9,888,717	8,740,783	896,766	251,168

SUBSEQUENT EVENTS

- In August 2016, subject to approval by the TSX Venture Exchange, the Company entered into an agreement to amend the terms of its unsecured convertible notes from January 11, 2017 to January 11, 2018.
- On 11 of August 2016 the process of handover of the technical assets of the three fields, Muradxanli, Cafarli and Zardab in Azerbaijan was completed.
- On 11 August 2016 the Company started the crude oil production of approximately 300 barrels of oil per day in Azerbaijan under Zenith's banner.
- In August 2016 the Company amended the repayment of the USD 700,000 of the USD loan to October 15, 2016.

GOING CONCERN

As at June 30, 2016, the Company has a working capital deficit and an accumulated deficit, and may incur future losses in the development of its business. Current cash resources will not be sufficient to continue development activities. These matters raise significant doubt about the ability of the Company to continue to meet its obligations as they become due. 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. 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.

The Company's unaudited condensed interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and meet its obligations and continue its operations for the foreseeable future. Realization values may be substantially different from carrying values as shown and the 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 the consolidated financial statements, then the adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

SHARES AND CONVERTIBLE, EXERCISABLE AND EXCHANGEABLE SECURITIES

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares issuable in series.

As June 30, 2016 and the date of this MD&A, the Company's issued share capital and the outstanding securities that are convertible or exercisable for any voting or equity securities of the Company are as follows:

	Number of common shares	Number of warrants	Number of stock options
Balance – March 31, 2016	43,594,406	29,638,898	–
Issued	15,289,400	12,591,612	–
Expired	–	–	–
Balance – June 30, 2016	58,883,806	42,230,510	–
Issued	–	–	–
Expired	–	–	–
Balance – Date of MD&A	58,883,806	42,230,510	–

RELATED PARTY TRANSACTIONS

Related party transactions during the three months ended June 30, 2015 and 2014 not disclosed elsewhere in this MD&A are as follows:

a) Included in general and administrative expenses is $40,680 (2015 – $57,295) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at June 30, 2016, $nil (March 31, 2016 – $nil) was included in trade and other payables in respect of these charges.

b) Included in trade and other payables is $37,075 (March 31, 2016 – 8,966) 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.

OFF-BALANCE SHEET ARRANGEMENTS

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

OUTLOOK

As noted earlier, the Company's cash and cash equivalent balance is not sufficient to meet the Company's obligations and additional funds will have to be raised through the issuance of debt and equity financing. There is no assurance that such additional funds can be raised on reasonable terms, or at all.

The Company plans to continue to focus on both international oil and natural gas exploration opportunities as well as continuing its search for smaller producing assets in North America, Italy, Argentina, Albania, Azerbaijan and Oman. Management intends to focus its efforts toward acquiring large exploration permits, which offer high exploration potential and the opportunity to act as operator.

The Company's plans for fiscal 2017 include:

(a) Italy: After the acquisition of 9 producing licenses and 4 exploration applications from Mediterranean Oil & Gas Plc., Zenith has evaluated drilling opportunities on these permits and will formalize plans to either participate directly in such potential operations or farm-out its interest to third parties. The company's technical team has conducted in depth geological, geophysical and engineering evaluations on all these properties. Natural gas from two properties which is not suitable for transportation in the national pipeline grid will now be produced to generate electricity with the use of gas turbines. New seismic data has defined a very interesting structure on the Macchia Nuova property and plans are being made to drill this prospect in the future. Drilling plans for side-track drilling operations at the Masseria Petrilli property and drilling of a new well at the San Teodoro field are also being evaluated. These activities are expected to increase Zenith's gas production in Italy.

Submission of extensive environmental reports relating to the commencement of production of the Torrente Vulgano and Canaldente gas properties has been completed and preliminary approval has been received. The Company is now looking forward to finally place on production these wells after the final approval is received. Production of natural gas from the Torrente Vulgano and Canaldente properties is now expected to commence in mid-2017.

Improvements of facilities at San Teodoro will be completed by the tie-in of new dehydration equipment. While the field has been capable of production, a lack of regional infrastructure had limited additional expansion in the past. In December 2014, Zenith reached an agreement with Basengas S.r.l., a successful retail marketer of natural gas within Italy, to handle forthcoming production from this 100% owned field, which is anticipated to restart production in March 2017. Production from the existing wellbore is expected to commence at 3,000 cubic meters/day (106 mcf/d or 18 boed), increasing Zenith's current daily production in Italy by 25%, to over 100 boepd. Costs of the refurbishment and commencing production are anticipated at €300,000 and will be paid through an equipment leasing facility.

Zenith is also evaluating the possibility of drilling a deviated well into the crestal area of the Torrente Salsola structure, where the Company has a 100% working interest, in order to unlock residual reserves. The Company has an ambitious program to enhance the Italian daily gas production rate in the Puglia Region by 100% through a technical program employing additional workovers.

Zenith is planning to implement an innovative plan for the exploitation of the Traetta 1 well in the Masseria Grottavecchia concession (20% working interest) through the sweetening of the produced gas so that it can be sold through the national pipeline grid. This development plan will be submitted to the Ministry, for its analysis and required prior approval. Approval is expected to be received in December 2016.

(b) **Argentina:** The Company will continue to focus on the recompletion program on select wells from the properties acquired in 2010 with the intention to increase production and cash flows. The Company is evaluating drilling operation on different formations similar to the presently producing ones. The Company is also evaluating the potential of deeper horizons which are rumoured to have been drilled very successfully by other operators in close proximity to the Alberto and Don Ernesto fields.

In Argentina, the recently elected and pro-business government continues to provide pricing stability and maintain a regime that encourages exploration and development activity in spite of the current oil market volatility. While pricing for Zenith's Escalante petroleum produced in Chubut maintained a sales price with a floor of USD 59 per barrel in December 2015 and January 2016, production and the price for the remainder of 2016 has now been fixed with a floor of USD 54.90, which continues to exceed the current world price for WTI which fell below USD 30 in early 2016. Management believes that Petrolera Patagonia will continue to benefit from the government's capacity to provide pricing stability as the energy industry continues to rebuild under the new regime.

In light of changes to the commodity price environment, Zenith's wholly-owned subsidiary, Petrolera Patagonia, will continue with its budgeted capital expenditures within Argentina, which is free from any contractual or regulatory obligations, as mentioned in several public news updates.

Zenith management also believes it will be able to maximize value from its wholly-owned Argentinean operations through the recent devaluation of the Argentinean Peso. On December 10, 2015, the date the new President, Mauricio Marcì was sworn into office, 1 Peso traded at the equivalent of US$0.1027. As of July 15, 2016, 1 Peso traded at the equivalent of US$0.06778, representing a 34% decline. In Argentina revenues are earned in US Dollars and collected in Pesos; expenses paid in Pesos. This situation allows Zenith to moderate the effects of the expected oil price contraction on the Argentinean market with savings resulting from the peso devaluation.

(c) **Azerbaijan:** On June 20, 2016, the REDPSA for the Block in the Republic of Azerbaijan was ratified by the Parliament of the Republic of Azerbaijan and converted into an official law of the country signed by the President of the Republic of Azerbijan. The Block covers an area of 642.4 square kilometres, and currently produces approximately 350 barrels of crude oil per day, having however produced significantly larger quantities in previous years. Minor quantities of natural gas are also produced and used at the site.

The term of the Contract Rehabilitation Area portion of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's rehabilitation and production program which is anticipated to occur in late 2016. The term of the Contract Exploration Area portion of the REDPSA is 25 years from the date of SOCAR's approval of the contractor's development program. The term of each Area may be extended by an additional five years at the option of SOCAR.

Zenith's corporate office in Baku, the capital of Azerbaijan, is a two and a half hour drive from the operational office presently used to manage the producing fields, which are in the southern region of Azerbaijan. Azeri management familiar with the properties will initially be supplemented by new technical and operational personnel from Zenith, however the Company will also begin to actively identify international management and specialists willing to relocate to Azerbaijan as part of its strategy to grow production from the Block. Zenith Aran, the Company's wholly-owned subsidiary, will act as the operating entity for the management of the Azerbaijan oil properties.

The handover of the technical assets of the three fields, Muradxanli, Cafarli and Zardab was completed on 11 of August 2016 and now the Company's production from the Block commenced on 11 August 2016. The Company plans to evaluate the performance of key wells and will then implement a program of work-overs and facilities improvements.

(d) **Albania:** On May 11, 2016, the Company was informed that its bid for the onshore exploration concession denoted as Block C was successful. The geological setting of Block C is part of the Peri-Adriatic molasses foredeep and possesses similarities to the southern Italian Bradanic foredeep, essentially mirroring the geological structure on the western side of the Adriatic Sea, approximately 100km away. The type of petroleum system identified on Block C is generally associated with rich natural gas reservoirs, including the prolific Albanian Divjake-Ballaj gas field, with an estimated 2.2 billion cubic meters (77.7 Bcf) of OGIP (Source: Albpetrol S.h.a.). Past exploration activity in the region of Block C has also indicated the potential for oil prospects within this block. Zenith is particularly interested in the hydrocarbon potential of deeper carbonate reservoirs given that all producing fields in Albania have been found above a depth of 2,200 meters due to limited seismic data and relatively sparse exploratory drilling, and therefore deeper targets may provide additional opportunities.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In the ordinary course of business, the Company and its subsidiaries may enter into contracts which contain indemnification provisions, such as service agreements, leasing agreements, asset purchase and sale agreements, joint venture agreements, operating agreements, and land use agreements. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

The Company subleases premises in London, UK, under an operating lease on a month to month basis which requires payments of approximately $50,000 per annum.

BUSINESS RISKS AND UNCERTAINTIES

The Company has production operations in Argentina, and focuses the majority of its activities on exploration in Argentina and Italy. Some of the Company's operations and related assets are located in countries which carry a higher degree of political and economic risk.

Zenith's current oil production in Argentina is not receiving WTI equivalent prices as the selling price of oil in Argentina is fixed by the Government and is subject to minor price fluctuations. Oil and natural gas are commodities whose prices have fluctuated widely in recent years and are determined based on world demand, supply and other factors, all of which are beyond the control of the Company.

The Company operates in the petroleum and natural gas industry which is subject to numerous risks that can affect the amount of cash flow from operating activities and the ability to grow. These risks include but are not limited to:

- Global economic uncertainty;
- Risks associated with operating in foreign jurisdictions;
- Competition with more established companies and the availability of services;
- Volatility in commodity pricing, exchange and interest rates;
- Government and regulatory risk with respect to royalty and income tax regimes;
- Operation risks that may affect the quality and recoverability of reserves;
- Geological risks associated with accessing and recovering new quantities of reserves;
- Ability to capitalize on farm-in and farm-out opportunities as they arise;
- Production risks associated with the ability to extract commercial quantities of petroleum and natural gas;
- Transportation risk with respect to the ability to transport petroleum and natural gas to market;
- Third party credit risk and the resulting ability to collect amounts owed;
- Capital markets risk and the ability to finance future growth;
- Uncertainty as to the nature of evolving environmental legislation that is likely to result in stricter standards and enforcement ; and

- Environmental risk with respect to the ability to remedy spills, releases or emissions of various substances produced in association with petroleum and natural gas operations.

The Company will seek to minimize these business risks by:

- Employing management, technical staff and consultants with extensive industry experience;
- Maintaining a low cost structure;
- Maintaining prudent financial practices;
- Controlling timing and magnitude of operating and capital costs;
- Working with established industry partners; and
- Maintaining insurance in accordance with industry standards to address the risk of liability for pollution, blow-outs, property damage, personal injury and other hazards.

OTHER

Additional information related to the Company's business and activities can be found on SEDAR at **www.sedar.com**.