ZENITH ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS AND YEAR ENDED MARCH 31, 2018

This management's discussion and analysis (the "**MD&A**") dated June 29, 2018 of Zenith Energy Ltd. ("**Zenith**" or the "**Company**") is presented in Canadian dollars and should be read in conjunction with the Company's audited consolidated financial statements dated March 31, 2018.

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 realise 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$**"); the functional currency Company's subsidiaries is Argentina is the Argentine Peso; the functional currency of the Company's Italian subsidiary is the Euro; the functional currency of the Company's Azerbaijan subsidiary is the Manat; the functional currency of the Company's Swiss subsidiary is the Swiss Franc and the functional currency of the Company's United States subsidiaries is the United States dollar. The Company's presentation currency is the CAD$. In this MD&A, unless otherwise noted, all dollar amounts are expressed in CAD. References to "**US**" are to United States dollars, references to "**€**" are to Euros and references to "**GBP**" are to Britain Pounds, references to "**AZN**" are to Azerbaijan Manats, and references to "**CHF**" are to Swiss Francs.

The amounts are shown in thousands Canadian dollars (CADS'000), British Pounds (£'000) and US Dollars (US$'000), where not disposed differently.

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 the 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"). The 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 "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 contained 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 crude oil and petroleum products prices and demand; (ii) the state of capital markets; (iii) expectations related to operating costs in Azerbaijan and Italy; (iv) variations in the US dollar, Euro, Manat, and Canadian dollar exchange rates; (v) expectations related to regulatory approvals; (vi) management’s analysis of applicable tax legislation; (vii) expectations that the currently applicable and proposed tax laws will not change and will be implemented; (viii) 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; (ix) expectation that management will consider acquiring additional producing assets; (x) the capital expenditures required in order to re-commence production on both the Torrente Vulgano and Canaldente concessions; (xi) the ability of the Company to re-commence production on both the Torrente Vulgano and Canaldente concessions by late 2017; (xii) the price of natural gas and of the electricity in Italy; (xiii) the ability of the Company to comply with certain regulatory requirements in Italy; (xiv) the Company’s ability to increase its oil and gas production in the year 2017; (xv) expectations related to the assets producing oil in Azerbaijan named Muraxkhanli, Jafarli and Zardab, owned by Zenith Aran Oil Company and (xvi) 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) increased competition; (ii) assumption that operating costs in Azerbaijan and Italy may be reduced in future months and that the oil price in the international markets will continue to improve; (iii) additional financing of the Company is subject to the global financial markets and economic conditions; (iv) the Company will evaluate certain assets located within Azerbaijan and will focus on managing the assets acquired in 2016 with the intention to increase production and cash flows; (v) assumptions related to international oil and natural gas prices; (vi) ability to obtain regulatory approvals; (vii) costs of exploration and development; (viii) availability and cost of labour and management resources; (ix) performance of contractors and suppliers; (x) availability and cost of financing; and (xi) 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. 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(s) contained in this document.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related achieved amounts. The estimates and assumptions that have significant risk of causing material adjustments and assumptions to the carrying amounts of assets and liabilities are disclosed below.

During the year ended March 31, 2017, the Company recognised a value of assets and associated liabilities for its Azerbaijan Assets acquired after the combination of the business, including the payments due in respect of the acquisition relating to royalties, as well as the development and exploration programmes.
The valuations of the assets and of the liabilities have been based on the Net Present Value ("**NPV**") of future cash flows included in the Competent Persons Report prepared on behalf of the Company by Chapman Petroleum Engineering Ltd. ("**Chapman" – "Original CPR**"), but include a range of estimates which include:

- The discount rate to be applied for the purposes of deriving a recoverable value;
- Future revenues and estimated development and exploration costs;
- Growth rates;
- The expected oil price; and
- Costs of production

Any changes to the estimates may result in a material impact to the carrying value of both the assets and liabilities, arising in respect of the acquisition.

The Development and Production assets in Azerbaijan are valued using discount factors of 15% and 10% respectively.

The assets acquired in the business combination were acquired in conjunction with capital commitments represented by the deferred consideration payable. The details of these capital commitments are included within the 'Capital costs' section of note 19.

As at 31 March 2018 and 2017, the Group identified certain business risks related to its Italian and Azerbaijan CGUs, such as a decrease in forecast prices from those in prior years and the deferral of future capital investment, as indicators of impairment. As a result, the Group performed impairment tests at 31 March 2018 and 2017 and estimated the recoverable amount of the above CGUs based on the higher of the fair value less costs to sell and its value in use.

The estimated fair value less costs to sell of the Italian CGU was based on 15% (2017 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at 31 March 2018 and 2017. The estimated recoverable amount of the Italian CGU at 31 March 2018 was higher than its carrying amount, therefore, no impairment was recognized in the year ended 31 March 2018 (2017 – impairment of CAD $2,985,000) in the consolidated statement of comprehensive income.

The estimated fair value less costs to sell of the Azerbaijan CGU was based on 10% (2017 – 10%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at 31 March 2018. The estimated recoverable amount of the Azerbaijan CGU at 31 March 2018 was higher than its carrying amount, therefore, no impairment was recognised in the year ended 31 March 2018 (2017 - CAD $nil) in the consolidated statement of comprehensive income. The headroom between the calculated value in use and the carrying amount is sensitive to changes in the discount rate used. A 0.3% increase in the discount rate would eliminate the headroom and therefore any increase in the discount rate above 0.3% would result in an impairment.

NATURE OF OPERATIONS, ACQUISITON AND EXPLORATION ACTIVITIES

The Company was incorporated under the Business Corporations Act (British Columbia) ("**BCBCA**") on September 20, 2007. The Company's registered address is 250 Howe Street, 20th Floor, Vancouver, BC, V6CV 3R8, Canada and its website address is: **www.zenithenergy.ca**. The Company's primary operational activities are the production and development of hydrocarbon reserves in Azerbaijan and Italy.

On March 10, 2010, Zenith established 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 assets. However, as described in the following paragraphs, after Petrolera Patagonia S.r.l. was acquired, management saw no immediate need for IPRP. 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., renamed as Petrolera 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 assets in Argentina.

On March 23, 2011, Zenith established Canoel Italia S.r.l. ("**Italia S.r.l.**"), an Italian subsidiary of the Company, in order to enable the Company to have an Italian operating entity and thereby have the possibility to be awarded oil and gas production and exploration assets posted for auction by the Italian Ministry for Economic Development.

On August 27, 2011, Italia S.r.l. was awarded two natural gas production assets, which were previously on production but are currently shut-in, in an auction by the Ministry of Economic Development. Zenith's bid was accepted on the basis of a comprehensive and detailed presentation outlining a clear programme to return both assets to production. The assets 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 Italian hydrocarbons are produced.

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 production and exploration permits from an established natural gas production company, Mediterranean Oil & Gas Plc, a British company with activities in Italy, France and Malta, listed on the AIM of the London Stock Exchange.

On June 6, 2013, the Company completed the acquisition of various working interests in 13 Italian production and exploration assets (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 final approval from the Italian Ministry for Economic Development for 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 Permit Applications are located in southern Italy and cover an area of 1,285 sq. kilometres.

On October 1, 2015, the Company acquired cogeneration equipment and infrastructure from the owner of the plant that treats gas from the Masseria Vincelli 1 well in the Torrente Cigno concession in Italy. The acquisition has enabled the Company to produce electricity using Torrente Cigno' sub-standard natural gas production from the Masseria Vincelli 1 well and sell it directly into the national 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 authorised the State Oil Company of the Azerbaijan Republic ("**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 Area (the "**Area**"), covering 642.4 sq. kilometres.

The REDPSA was executed on March 16, 2016 between SOCAR, Zenith Aran and SOCAR Oil Affiliate ("**SOA**"), a 100% owned subsidiary of SOCAR. On June 20, 2016, upon ratification by the Parliament of the Republic of Azerbaijan, the REDPSA was enacted into Azerbaijan national law.

On August 11, 2016, the handover of the Azerbaijan assets was formally completed, with the necessary signatures on related documents, and the Company commenced crude oil production of approximately 275 bopd under Zenith's ownership. The REDPSA therefore became effective on August 11, 2016.

On February 20, 2017, Zenith announced the divestment of its operations in Argentina to a group of local energy investors. The divestment of the Company's oil production activities in Argentina has enabled Zenith's management to direct undistracted focus towards Zenith's operations in Azerbaijan, where a systematic programme of field rehabilitation is underway, as well as enabling the consolidation of its Italian energy production portfolio. The divestment reflects the Board's aversion to operational overstretch, and the Company's preference for a strong, undistracted focus towards the achievement of its operational goals in Azerbaijan.

On March 30, 2017, Zenith acquired a Swiss company, Altasol SA, a non-operating company, purchased with the intention of developing an oil trading subsidiary of Zenith.

On July 29, 2017, the Company established an oilfield services subsidiary company, Zena Drilling Limited ("**Zena**"), incorporated in the Ras Al Khaimah Free Trade Zone ("**RAKFTZ**"), in the United Arab Emirates ("**UAE**"). Zena is a 100% beneficially owned subsidiary of the Company. Zena was incorporated by and the shares in Zena are currently registered in the name of Mr Andrea Cattaneo as probono trustee for the Company. Due to the process of incorporation in RAKFTZ, this was the most efficient method of establishment in fact the UAE is not a signatory to The Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents and the process of transferring legal ownership to Zenith is elongated and is not expected to be completed until later in 2018.

On November 2, 2017, Zenith was a founding party in a newly incorporated Italian entity named 'Leonardo Energy Consulting S.r.l.'. The Company holds a 48 percent interest in the company. The primary purpose of this subsidiary is the identification of business development opportunities in Central Asia and in the Middle East.

On March 28, 2018, the Company announced that it had entered into a binding exclusivity and an option to purchase agreement (the "**Agreement**") for the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**").

The Proposed Acquisition envisages the Company acquiring a 100% working interest in an oil production licence comprising two onshore blocks, with a combined total acreage covering approximately 65 sq. kilometres.

Existing production in excess of 1,000 barrels of oil per day transported by pipeline directly into the national oil sales system with a reported all-in average production cost of US$18 per barrel.

The oilfields are located in a prolific oil and gas basin with a proven petroleum system. At present, only one of the two oilfields is producing. The second oilfield is expected to be capable of significant production by drilling new wells and performing workovers on existing wells.

Drilling activities can be performed at relatively low-cost and without significant delay. The average total depth of production wells in the licence area of the Proposed Acquisition is between 350 to 750 metres.

The approved development programme for the licence area, involving the drilling of new wells and the introduction of new oil production technology, is expected to double current production from the Proposed Acquisition by 2020.

2D seismic dataset covering key oil production locations.

On March 28, 2018 the Company announced that Mr Andrea Cattaneo, the Chief Executive Officer and President of the Company, had agreed to make a down payment of US$100,000 by April 15, 2018 (the "**Deposit**"). After completing the Due Diligence, the Company has a period of 15 days to choose to exercise the binding option to complete the Proposed Acquisition (the "**Option**") for a total consideration of US$6,600,000 (the "**Consideration**"). The Consideration shall be payable as to 50 per cent., (US$3,300,000), within 7 business days of exercising the Option (the "**First Payment**"), and the balance, (US$3,300,000), payable by the deadline of August 31, 2018.

Zenith is considering a number of funding options for the Consideration including debt and equity. On April 16, 2018 the Company provided an update regarding its progress on the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**"). The Company announced that, in agreement with the vendor, it had extended the completion deadline for the due diligence until May 15, 2018. Zenith also announced that Mr. Cattaneo had advised the Company that the Deposit had been paid in full. The Company announced that if it exercises the Option to complete the Proposed Acquistion, then the Deposit will be offset against the First Payment, and the Company will reimburse Mr Cattaneo the Deposit. In the event that during the Due Diligence the Company finds negative discrepancies greater than 5% of the book values stated in the Proposed Acquisition's financial statements dated

February 28, 2018, then the Deposit shall be refunded to Mr Cattaneo. If the Company decides not to exercise the Option for any other reason during the Due Diligence, then Mr Cattaneo will forfeit the Deposit.

On May 16, 2018 the Company announced that its due diligence of the Proposed Acquisition in Indonesia, encompassing an evaluation of the legal, accounting, petroleum and fiscal aspects of the Proposed Acquisition, was in progress and that the Company now expected to complete the Due Diligence by June 15, 2018. The extension will enable the Company to further examine certain areas of the Proposed Acquisition that require clarity to satisfy the Company's stringent Due Diligence requirements. The Company also announced that it had decided to defer a decision on whether to proceed with the Proposed Acquisition until the second half of 2018 in order to focus on implementing its operational strategy in Azerbaijan.

DEVELOPMENT AND EXPLORATION ACTIVITIES

The Company conducted the following development activities in Argentina (disposed on February 2017), Azerbaijan, Italy and in new subsidiary Zena Drilling as noted below:

	Nine months ended December 31 (CAD$'000)	
Capital additions	**2017**	2016
Argentina	**-**	-
Azerbaijan	**3,737**	212
Italy	**87**	195
Other	**2,157**	6
	5,971	413

HIGHLIGHTS FOR THE THREE MONTHS AND YEAR ENDED MARCH 31, 2018 INCLUDE THE FOLLOWING:

OPERATIONAL:

- During the financial year ended March 31, 2018 the Group produced 97,471 bbls of oil and sold 81,745 bbls of oil from its assets in Azerbaijan. There is no exact comparative data for the year ended March 31, 2017 because the effective handover data, and the consequent beginning of operations was August 11, 2016.

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

  On August 11, 2016 the handover of the Azerbaijan oil production assets, physically completed in June 2016, was formally completed with the necessary signatures on related documents and the Company began oil production activities at a rate of 300 bopd. During the period from August 11, 2016 to September 30, 2016, the Company sold 11,806 bbls of oil produced from its Azerbaijan oil production assets.

  At the end of March 2018, there were 107 bbls of unsold oil production in Azerbaijan held in inventory which were sold in subsequent months.

- During the three months and year ended March 31, 2018, the Company sold 3,710 and 16,909 mcf of natural gas production from its Italian assets as compared to 4,787 and 25,124 mcf of natural gas in the 2017 similar period. The decline in 33% was due to an interruption of production from the Lucera and Acquasalsa concessions for essential maintenance work

- During the three months and year ended March 31, 2018, the Company sold 105 and 715 bbls of condensate production from its Italian assets as compared to 93 and 692 bbls of condensate in the 2017 similar periods, recording an increase of 3%.

- During the three months and year ended March 31, 2018, the Company sold 760 and 7,975 MWh of electricity production from its Italian assets as compared to 1,524 and 9,636 MWh for the 2017 equivalent period, recording a decrease of 17%. This decline was due to disruption to production activities in January and February 2018 resulting from essential maintenance work.

- The Company incurred CAD$5,971k of capital expenditures in the year ended March 31, 2018, primarily resulting from the workover field development programme underway in Azerbaijan and purchase of equipment.

- On July 29, 2017, the Company established an oilfield services subsidiary company, Zena Drilling Limited ("**Zena**"), incorporated in the Ras Al Khaimah Free Trade Zone ("**RAKFTZ**"), in the United Arab Emirates ("**UAE**"). Zena is a 100% beneficially owned subsidiary of the Company. Zena was incorporated by and the shares in Zena are currently registered in the name of Mr Andrea Cattaneo as probono trustee for the Company. Due to the process of incorporation in RAKFTZ, this was the most efficient method of establishment in fact the UAE is not a signatory to The Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents and the process of transferring legal ownership to Zenith is elongated and is not expected to be completed until later in 2018.

- On August 21, 2017, the Group announced that it had signed a contract for the procurement of oil production materials with Kerui Petroleum, a leading Chinese manufacturer of oilfield equipment.

  The total value of the procurement contract between Kerui Petroleum and Zenith is USD$1,706k (approximately £1,325k; CAD$2,146k). The terms of payment have been defined in accordance with INCOTERMS 2010, and will take place within 1 year of the contract's effective date, which was 2 January 2018. As per contract stipulates that the Group paid 15 percent of the total contract value in advance as deposit.

  The procurement of this new equipment will enhance the Group's operational capabilities, enable the Group's personnel to work in remote field locations, and replenish the Group's stock of oil production materials.

  The materials procured include: a blowout preventer (BOP); a full set of well control equipment; drill pipes to be used as a work string; tubing to be used in the installation of new electric submersible pumps and in old wells that have been returned to production; new oilfield infrastructure; lighting equipment; and a generator system to enable a workover rig to operate without the need for nearby infrastructure across the 642.4 km2 field area.

  The procurement of these materials demonstrates the Group's preference for acquiring its own equipment and resources across its operational activities. This ensures lower costs, direct accountability, and comprehensive oversight of the Group's operations. The Group's stock of oilfield equipment will also avoid the risk of the Group's operations being affected by third-party delays, specifically in supplying equipment that the Group's systematic field rehabilitation activities often require on an immediate basis.

- On November 1, 2017, the Group announced that it had signed a commitment letter with Olieum Services WLL ("**Olieum**"), an integrated oilfield services and equipment joint venture based in Bahrain, for the procurement of a Genesis BQ500 onshore drilling rig. Olieum has worked closely with the Group to structure a unique lease arrangement that aligns the Group's targeted growth plans and cash flows with its future equipment requirements.

  The Genesis BQ500 is the latest generation, automated onshore hydraulic drilling rig to be manufactured by B Robotics W S.R.L, a founding partner in Olieum, and a leading Italian oil and gas innovation company specialising in the design and manufacture of advanced oil and gas drilling equipment. The rig is expected to deliver enhanced automation, efficiency and safety to the Group's drilling operations, whilst driving down costs and time-to-production. This has largely been achieved through extensive research and development in modular rig design, and in key components including the monkey board, slips, lay-up and down machine, pipe containers, roughneck, subs and bits loader, and all the working floor tools.

  On June 25, 2018, the Company announced that its oilfield service company subsidiary, Zena Drilling Limited, ("**Zena**"), had signed a revised commitment letter (the "**Commitment Letter**") with Olieum on June 22, 2018 that superseded the aforementioned commitment letter announced on November 1, 2017. The Commitment Letter includes a number of more favourable terms for the Company over the previous commitment letter announced by the Company on November 1, 2017. The Company announced the following key terms of the Commitment Letter: Six-year operating lease of a BQ500 2000HP automated hydraulic drilling rig; option to renew the operating lease for a further six years upon completion of the first six-year term; the BQ500 shall be gifted to the Company once all payments are made during an operating lease period of twelve years; six-month 'grace period' starting from the beginning of drilling operations using the BQ500 during which time the Company will not pay any leasing costs.

  Further, the Company announced that the Genesis BQ500 is scheduled for delivery in December 2018.

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

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

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

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

The total value of the purchase agreement contract for the New Workover Rig is approximately CAD$440,218 (approximately £250,933).

- On March 28, 2018, the Company announced that it had entered into a binding exclusivity and an option to purchase agreement (the "**Agreement**") for the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**").

The Proposed Acquisition envisages the Company acquiring a 100% working interest in an oil production licence comprising two onshore blocks, with a combined total acreage covering approximately 65 sq. kilometres.

Existing production in excess of 1,000 barrels of oil per day transported by pipeline directly into the national oil sales system with a reported all-in average production cost of US$18 per barrel.

The oilfields are located in a prolific oil and gas basin with a proven petroleum system. At present, only one of the two oilfields is producing. The second oilfield is expected to be capable of significant production by drilling new wells and performing workovers on existing wells.

Drilling activities can be performed at relatively low-cost and without significant delay. The average total depth of production wells in the licence area of the Proposed Acquisition is between 350 to 750 metres.

The approved development programme for the licence area, involving the drilling of new wells and the introduction of new oil production technology, is expected to double current production from the Proposed Acquisition by 2020.

2D seismic dataset covering key oil production locations.

On March 28, 2018 the Company announced that Mr Andrea Cattaneo, the Chief Executive Officer and President of the Company, had agreed to make a down payment of US$100,000 by April 15, 2018 (the "**Deposit**"). After completing the Due Diligence, the Company has a period of 15 days to choose to exercise the binding option to complete the Proposed Acquisition (the "**Option**") for a total consideration of US$6,600,000 (the "**Consideration**"). The Consideration shall be payable as to 50 per cent., (US$3,300,000), within 7 business days of exercising the Option (the "**First Payment**"), and the balance, (US$3,300,000), payable by the deadline of August 31, 2018.

Zenith is considering a number of funding options for the Consideration including debt and equity. On April 16, 2018 the Company provided an update regarding its progress on the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**"). The Company announced that, in agreement with the vendor, it had extended the completion deadline for the due diligence until May 15, 2018. Zenith also announced that Mr. Cattaneo had advised the Company that the Deposit had been paid in full. The Company announced that if it exercises the Option to complete the Proposed Acquistion, then the Deposit will be offset against the First Payment, and the Company will reimburse Mr Cattaneo the Deposit. In the event that during the Due Diligence the Company finds negative discrepancies greater than 5% of the book values stated in the Proposed Acquisition's financial statements dated February 28, 2018, then the Deposit shall be refunded to Mr Cattaneo. If the Company decides not to exercise the Option for any other reason during the Due Diligence, then Mr Cattaneo will forfeit the Deposit.

On May 16, 2018 the Company announced that its due diligence of the Proposed Acquisition in Indonesia, encompassing an evaluation of the legal, accounting, petroleum and fiscal aspects of the Proposed Acquisition, was in progress and that the Company now expected to complete the Due Diligence by June 15, 2018. The extension will enable the Company to further examine certain areas of the Proposed Acquisition that require clarity to satisfy the Company's stringent Due Diligence requirements. The Company also announced that it had decided to defer a decision on whether to proceed with the Proposed Acquisition until the second half of 2018 in order to focus on implementing its operational strategy in Azerbaijan.

FINANCIAL:

- The Company generated oil and natural gas revenue, net of royalties, of CAD$5,6916k and CAD$785k of electricity revenue in the year ended March 31, 2018. The Company generated oil and natural gas revenue, net of royalties, of CAD$3,996k and CAD$373k of electricity revenue in the year ended March 31, 2017.
- On May 25, 2017, the Company announced that following the announcement of February 22, 2017 regarding a Director of Zenith having exercised an option to acquire 1,000,000 new Common Shares in the capital of the Company, the Option Shares had been issued on May 23, 2017 following confirmation by the Director of the custodian to whom they should be issued.
- On June 29, 2017, an investor in the Company exercised warrants to acquire 1,019,250 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$15k (approximately £91k).
- On April 5, 2017, the Company's wholly-owned subsidiary, Zenith Aran Oil Company Limited, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("**Rabitabank**") for an amount of up to US$320k (CAD$416k), for industrial and production purposes. The credit agreement was drawn down in one tranche and as at April 6, 2017 was fully drawn down. Rabitabank may postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown, or in the event of the REDPSA being rescinded.

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

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

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

  As of December 31, 2017, the outstanding principal amount is US$280k (CAD$350k) is classified as a current liability.
- On April 12, 2017, Zenith Aran Oil Company Limited entered into a second general line of credit agreement with Rabitabank for an amount of up to US$200k (CAD$260k). The credit agreement bears interest at a rate of 10% per annum which is paid monthly. The credit line has been granted for a one-year period and the principal amount has to be repaid at the end of the period. The credit agreement is guaranteed by the Company.

  As of December 31, 2017, the amount of US$200k (CAD$250), plus accrued interest, was still outstanding and is classified as a current liability.
- On July 14, 2017, Zenith closed a non-brokered private placement issuing 3,533,333 common shares at a price of CAD$0.123956 per unit for aggregate gross proceeds of CAD$438k (approximately £265k). The Company also paid aggregate finder's' fees of CAD$22k (approximately £13k).
- On August 2, 2017, Zenith closed a non-brokered private placement issuing 2,666,667 Common Shares at a price of CAD$0.1230606 per unit for aggregate gross proceeds of CAD$328k (approximately £200k). The Company also paid aggregate finder's' fees of CAD$16k (approximately £10k).

  The proceeds of the Private Placement funded the Company's acquisition of oil production equipment and provide general working capital. The materials procured included a blowout preventer (BOP), drill pipe to be used as a work string, tubing, as well as an oilfield dog house, lighting equipment and a generator system to allow a workover rig to operate without the need for nearby infrastructure. The procurement of this equipment enabled the Company's personnel to work more efficiently in remote field locations.
- On August 2, 2017, Zenith closed a non-brokered private placement of 666,666 Common Shares at a price of CAD$0.1230606 per unit for aggregate gross proceeds of CAD$82k (approximately £50k). The Company also paid aggregate finder's' fees of CAD$4k (approximately £2.5k).

The proceeds of this Private Placement funded the Company's acquisition of oil production equipment and provide general working capital.

- On September 11, 2017, Zenith closed a non-brokered private placement issuing 3,600,000 common shares at a price of CAD$0.11 per share for aggregate gross proceeds of CAD$404k (approximately £252k). The Company also paid aggregate finder’s' fees of CAD$20k (£13k).
- On September 27, 2017, the Company announced that a Director of the Company had exercised part of his stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.10 per common share and a total cost of CAD$100k (£60k).
- On September 28, 2017, the Company announced that a Director of the Company had, in accordance with TSX Venture Exchange rules, swapped part of his salary for the first two quarters of the 2018 financial year for the equivalent of CAD$2.5K per month, for a total of CAD$15k (approximately £9k). As a result, the Director received 111,131 common shares in the capital of the Company at an average price of approximately CAD$0.14 per share for the period April 1, 2017 until September 30, 2017.
- On October 12, 2017, an investor in the Company exercised warrants to acquire 2,049,775 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$307k (£186k).
- On October 16, 2017, a Director of the Company, Mr. Andrea Cattaneo, purchased 500,000 common shares of no par value in the capital of the Company at an average price of CAD$0.15591 per common share (approximately £0.09415), and a total cost of CAD$78k (£47k).
- On October 19, 2017, an investor in the Company exercised warrants to acquire 1,257,875 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$189k (£114k).
- On October 23, 2017, an investor in the Company exercised warrants to acquire 1,306,050 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.20 per share, and the total consideration received was CAD$261k (£160k).
- On November 2, 2017, an investor in the Company exercised warrants to acquire 500,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$75k (£44k).
- On November 8, 2017, an investor in the Company exercised warrants to acquire 1,612,142 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.20 per share, and the total consideration received was CAD$322k (£195k).
- On November 22, 2017, an investor in the Company exercised warrants to acquire 3,150,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$473k (£284k).
- On November 23, 2017, a Director of the Company exercised stock options to acquire 2,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.10 per share, and the total consideration received was CAD$200k (£118k).
- On December 11, 2017, an investor in the Company exercised warrants to acquire 400,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.20 per share, and the total consideration received was CAD$80k (£47k).
- On December 15, 2017, the Company announced that a Director of the Company had exercised stock options to acquire 1,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$150k (£87k).
- On December 18, 2017, the Company announced that a Director of the Company had exercised stock options to acquire 500,000 new common shares of no par value in the capital of the Company at an exercise price of CAD$0.10 per stock option (approximately £0.06) at a total cost of CAD$50,000 (£30k).

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

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

- On January 10, 2018, the Company closed a private placement to raise gross proceeds of CAD$500k (approximately £297k) through the issue of 4,000,000 new common shares of no par value in the capital of the Company at a price of CAD$0.125 (approximately £0.0742) per New Common Share with Canadian investors. The proceeds of the Private Placement will be used to purchase equipment for the development of the Company's oil production operations in Azerbaijan. The Company also paid finder's fees for £3k (approximately CAD$5k).

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

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

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

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

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

<u>CORPORATE AND ADMINISTRATIVE:</u>

- The Company continues to improve its accounting and administrative practices.
- During April 2017, 2,750,000 share options were granted to certain Zenith officers, directors, employees and consultants. Each option entitles the holder to acquire one share at a price of CAD$0.15 for the period ending April 2022. These were also valued using the Black Scholes model. The inputs to the calculation were as follows; stock price of CAD $0.07, exercise price of CAD $0.15, volatility of 100% and a monthly risk-free rate of 0.53%.
- On July 29, 2017, the Company established an oilfield services subsidiary company, Zena Drilling Limited ("**Zena**"), incorporated in the Ras Al Khaimah Free Trade Zone ("**RAKFTZ**"), in the United Arab Emirates ("**UAE**"). Zena is a 100% beneficially owned subsidiary of the Company. Zena was incorporated by and the shares in Zena are currently registered in the name of Mr Andrea Cattaneo as probono trustee for the Company. Due to the process of incorporation in RAKFTZ, this was the most efficient method of establishment in fact the UAE is not a signatory to The Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents and the process of transferring legal ownership to Zenith is elongated and is not expected to be completed until later in 2018.
- On November 29, 2017, Zenith granted additional Options to certain of its Directors and employees to acquire a total of 2,000,000 common shares pursuant to its Stock Option Plan. Each Option granted entitles the relevant holder to acquire one common share for an exercise price of CAD $0.175 per common share. The expiry date of the Options is the date falling five years from the date of grant, being November 29, 2022.
- On November 2, 2017, Zenith was a founding party in a newly incorporated Italian company named 'Leonardo Energy Consulting S.r.l.'. The Company holds a 48 percent interest in the entity. The primary purpose of this subsidiary is the identification of business development opportunities in Central Asia and in the Middle East.
- The Company capitalised general and administrative expenses, related to the acquisition of assets in Azerbaijan, its admission to the London Stock Exchange and for the development of its new internet website, for CAD$2,724k. (See details in note 8 of the Financial Statements.)

SUBSEQUENT EVENT HIGHLIGHTS:

a) On April 5, 2018, the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "Options"), in accordance with the Company's Stock Option Plan on April 3, 2018. A total of 9,500,000 Options have been granted to directors and persons discharging managerial responsibility ("PDMRs"). Further details of the Options awarded to directors and PDMRs are outlined below. The exercise price of the Options is equivalent to the Company's TSXV closing price of March 26, 2018, being CAD$0.12 (approximately £0.067). The Options are fully vested and have the duration of five years from the date of granting.

b) On April 5, 2018 The Company entered into a five-month non-convertible loan agreement for the total amount of £230,000 on April 3, 2018. The loan has a repayment schedule of five instalments commencing on May 6, 2018 with an interest rate of 7.5 percent and can be settled at any time without penalty. The first instalment was duly repaid by the Company.

   Mr Andrea Cattaneo has agreed to act as a third-party guarantor in support of the Company by pledging a total of 3,571,428 common shares in the Company, in which he has a direct beneficial interest, as collateral to the lender.

c) On April 13, 2018, the Company announced announces the termination of the exclusivity agreement (the "Agreement") for the acquisition of various production and exploration licences located in a Central Asian country, communicated to the market on January 12, 2018.

   The Agreement has been terminated by the Company because it has not received the required financial information from the vendor for the due diligence process to be successfully completed.

d) On April 18, 2018 the Company announced the extension of the maturity date of the Series A Bond (the "Bond Extension"). The Bond Extension extends the maturity date for the Series A Bond from May 4, 2018 by six months to November 4, 2018. For the duration of the Bond Extension the interest rate of the Series A Bond has been increased to fifteen per cent per annum (15% p.a.). No further material terms will be amended in the Series A Bond or in any other document related to the 2015 Private Placement.

   Furthermore, in connection with the work undertaken on the Bond Extension, Optiva Securities Limited, the Company's joint broker, will be paid a fee consisting of: (i) £10,125 in cash (CAD$18,140.63 at an exchange rate of 1.79167); and (ii) 93,750 common share purchase warrants ("Warrants"). The Warrants entitle the holder to acquire one common share in the capital of Zenith at an exercise price of £0.12 (approximately CAD$0.215) for the period until May 2021.

e) On May 4, 2018 ,Mr. Cattaneo fully swapped his salary for the 2018 financial year in exchange for common shares in Zenith. As a result the Company issued Mr Andrea Cattaneo 1,123,068 common shares in the capital of the Company at an average price of CAD$0.165 (approximately £0.094) for the period from April 1, 2017 until March 31, 2018. The amount of the Salary Sacrifice Shares was calculated based on Mr Cattaneo's salary as at April 1, 2017.

f) On May 25, 2018, the Company to announced that it has signed a two-year non-convertible loan facility, (the "Facility"), for a total amount of up to US$2,000,000 on May 24, 2018.

   The Facility will be used to provide additional funding for the Company's operations when required. It will be drawn down in tranches, with each tranche being payable four months from the drawdown date. It can be settled at any time without penalty and has no warrants attached.

g) On June 6, 2018, the Company announced that its oilfield service company subsidiary, Zena Drilling Limited, ("**Zena**"), had signed a six-month rental agreement with B Robotics W S.r.l., ("**Robotics**"), a leading Italian drilling rig manufacturer, for a BD-260 type Robotics drilling rig.

   Zena contracted the BD-260 drilling rig in order to complete the Company's planned workover and drilling activities in the Zardab and Muradkhanli fields during the six-month period.

   Transportation of the BD-260 rig from one operation to the next in the Zardab field is expected to be relatively fast on account of the proximity of the Z-21, Z-28 and Z-3 well locations.

   Robotics has advised the Company that the BD-260 will be delivered to its field operations in Azerbaijan within 90 days. Under the rental agreement signed with Zena, Robotics has agreed to provide its highly experienced drilling personnel for the first month of operations to assist Zenith's field team.

h) On June 21, 2018, the Company announced that it has raised gross proceeds totalling, in aggregate, £2,166,898 through the successful Placing, Subscription and PrimaryBid Offer.

As a result of the Placing, Subscription and PrimaryBid Offer the Company will issue a total of 54,172,451 new common shares, (the "**New Common Shares**").

Application has been made to the UK Listing Authority for the New Common Shares and the 6,721,647 Admission Shares (as defined in the prospectus dated 20 June 2018) to be admitted to the standard segment of the Official List of the UKLA and to the London Stock Exchange for admission to trading on the main market for listed securities of the London Stock Exchange ("**Admission**"). The New Common Shares and the Admission Shares will rank pari passu in all respects with the Company's existing Common Shares and it is expected that Admission will become effective and that dealings in the New Common Shares and the Admission Shares will commence on or around 8.00 a.m. on 26 June 2018. An application will also be made for the New Common Shares to be listed on the TSX Venture Exchange.

The enlarged issued share capital following Admission will be 214,094,217 common shares and the New Common Shares will comprise approximately 25.3 per cent. of the enlarged issued share capital on Admission.

OPERATIONAL UPDATE

ITALY

In August 2009, the Italian Ministry for Economic Development announced an auction for three previusly producing natural gas production assets owned and operated by Eni, the Italian oil and gas major. Zenith's Italian subsidiary, Canoel Italia S.r.l ("**Canoel Italia**"), participated in the auction process for two assets, was selected as a finalist in the auction process, and was subsequently awarded the two assets.

On August 30, 2011, the Company announced that the Italian "Ministero per lo Sviluppo Economico" (the Ministry for Economic Development) confirmed in writing that Zenith's technical submission and proposal to return these assets to production had been approved.

These two natural gas production assets are both located in southern Italy. The first asset, named "Torrente Vulgano", is located in the Puglia Region, whilst the second, named "Canaldente", is located in the Basilicata Region. Both assets are already connected to the Italian national gas distribution network and therefore do not require the installation of new infrastructure.

The Torrente Vulgano and Canaldente concessions were previously operated by Italian oil major ENI. In the four-year period prior to the assets being returned to the Ministry for Economic Development by ENI, (1997-2000), the Torrente Vulgano concession 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 once all the necessary approvals have been received. However, there can be no assurance that production of the Torrente Vulgano and Canaldente assets will be resume at past rates. It is worth noting that the Canaldente reservoir appears to be a good candidate for gas storage when the well will eventually be shut-in at the end of commercial production cycle.

On August 27, 2011, Canoel Italia was approved in its role as operator by the relevant Italian 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 assets 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 Government for the change of ownership.

On October 1, 2015, the Company acquired cogeneration equipment and facilities which has enabled the company to produce electricity from the natural gas produced from the Masseria Vincelli 1 well, and to sell its electricity production directly into the national energy grid.

The Company's share of estimated total proved plus probable natural gas net reserves were assessed at 16,400 Mmscf and condensate net reserves were assessed at 257 Mbbls as of March 31, 2018.

AZERBAIJAN

On June 8, 2015, the Company and SOCAR (State Oil Company of the Azerbaijan Republic) signed a confidential memorandum of understanding ("**MOU**") for the Muradkhanli Area. Formal approval of the MOU was subsequently granted by the President of Azerbaijan through Decree No. 1439, dated October 7, 2015 ("**Presidential Decree**"). This authorised SOCAR to prepare and execute a Rehabilitation, Exploration, Development and Production Sharing Agreement ("**REDPSA**") for the Muradkhanli Area 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 a 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, and the Company's rights and obligations under the REDPSA became enacted into Azerbaijan national law.

The REDPSA covers approximately 642.4 square kilometres and includes the active Muradkhanli, Jafarli and Zardab oilfields located in the Lower Kura Region, about 240 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 a SOA will form the contractor group.

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

On June 14, 2016, the REDPSA for the Area Including the Muradkhanli, Jafarli and Zardab oilfield in the Republic of Azerbaijan was ratified by the Parliament of Azerbaijan.

In June 2016, the Company established Aran Oil Operating Company Limited, an 80% owned subsidiary of Zenith Aran, to serve as operator of the REDPSA.

On June 24, 2016, the President of the Republic of Azerbaijan signed the REDPSA into law, following parliamentary ratification on June 14, 2016.

On August 11, 2016 the handover of the Azerbaijan assets was formally completed with the necessary signatures on related documents, and the Company commenced crude oil production at approximately 300 bopd.

The Company's share of estimated total proved plus probable natural oil net reserves was assessed at 32,103 MSTB as of March 31, 2017.

On August 21, 2017 the Company announced that it had signed a contract for the procurement of oil production materials with Kerui Petroleum, a leading Chinese manufacturer of oilfield equipment.

The total value of the procurement contract between Kerui Petroleum and Zenith is US$1,706k (approximately £1,325k; CAD$ 2,146k). The terms of payment have been defined in accordance with INCOTERMS 2010 and will take place within 1 year of the contract's effective date. Zenith will pay 15 percent of the total contract value in advance as deposit.

The procurement of this new equipment will enhance Zenith's operational capabilities, enable the Company's personnel to work in remote field locations, and replenish Zenith's stock of oil production materials.

The materials procured include: a blowout preventer (BOP); a full set of well control equipment; drill pipes to be used as a work string; tubing to be used in the installation of new electric submersible pumps and in old wells that have been returned to production; new oilfield infrastructure; lighting equipment; and a generator system to enable a workover rig to operate without the need for nearby infrastructure across Zenith's 642.4 sq. kilometres field area.

The procurement of these materials evidences Zenith's preference towards employing its own equipment and resources across its operational activities. This ensures lower costs, direct accountability, and comprehensive oversight of the Company's operations. The Company's stock of oilfield equipment will also avoid the risk of Zenith's operations being affected by third-party delays in supplying equipment that the Company's systematic field rehabilitation activities require on an immediate basis.

The Company's share of estimated total proved plus probable oil net reserves were assessed at 31,735 MSTB as of March 31, 2018.

OTHER ACTIVITIES

In addition to the activities discussed above, the Company is examining a number of opportunities for value-accretive expansion with the potential acquisition of additional oil and gas producing assets in established oil production regions.

On March 30, 2017, the Company acquired a Swiss company, Altasol SA. It does not hold any assets and was purchased with the intention of developing an oil trading subsidiary of Zenith Energy Ltd.

On July 29, 2017, the Company established an oilfield services subsidiary company, Zena Drilling Limited ("**Zena**"), incorporated in the Ras Al Khaimah Free Trade Zone ("**RAKFTZ**"), in the United Arab Emirates ("**UAE**"). Zena is a 100% beneficially owned subsidiary of the Company. Zena was incorporated by and the shares in Zena are currently registered in the name of Mr Andrea Cattaneo as probono trustee for the Company. Due to the process of incorporation in RAKFTZ, this was the most efficient method of establishment in fact the UAE is not a signatory to The Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents and the process of transferring legal ownership to Zenith is elongated and is not expected to be completed until later in 2018.

On November 2, 2017, Zenith was a founding party in a newly incorporated Italian company named 'Leonardo Energy Consulting S.r.l.'. The Company holds a 48 percent interest in the entity. The primary purpose of the company is the identification of business development opportunities in Central Asia and the Middle East.

On March 28, 2018 the Company announced that it had entered into a binding exclusivity and an option to purchase agreement (the "**Agreement**") for the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**").

- The Proposed Acquisition envisages the Company acquiring a 100% working interest in an oil production licence comprising two onshore blocks, with a combined total acreage covering approximately 65 sq. kilometres.
- Existing production in excess of 1,000 barrels of oil per day transported by pipeline directly into the national oil sales system with a reported all-in average production cost of US$18 per barrel.
- The oilfields are located in a prolific oil and gas basin with a proven petroleum system. At present, only one of the two oilfields is producing. The second oilfield is expected to be capable of significant production by drilling new wells and performing workovers on existing wells.
- Drilling activities can be performed at relatively low-cost and without significant delay. The average total depth of production wells in the licence area of the Proposed Acquisition is between 350 to 750 metres.
- The approved development programme for the licence area, involving the drilling of new wells and the introduction of new oil production technology, is expected to double current production from the Proposed Acquisition by 2020.
- 2D seismic dataset covering key oil production locations.

On March 28, 2018 the Company announced that Mr Andrea Cattaneo, the Chief Executive Officer and President of the Company, had agreed to make a down payment of US$100,000 by April 15, 2018 (the "**Deposit**"). After completing the Due Diligence, the Company has a period of 15 days to choose to exercise the binding option to complete the Proposed Acquisition (the "**Option**") for a total consideration of US$6,600,000 (the "**Consideration**"). The Consideration shall be payable as to 50 per cent., (US$3,300,000), within 7 business days of exercising the Option (the "**First Payment**"), and the balance, (US$3,300,000), payable by the deadline of August 31, 2018.

Zenith is considering a number of funding options for the Consideration including debt and equity. On April 16, 2018 the Company provided an update regarding its progress on the possible acquisition of an oil production asset located in Indonesia (the "**Proposed Acquisition**"). The Company announced that, in agreement with the vendor, it had extended the completion deadline for the due diligence until May 15, 2018. Zenith also announced that Mr. Cattaneo had advised the Company that the Deposit had been paid in full. The Company announced that if it exercises the Option to complete the Proposed Acquistion, then the Deposit will be offset against the First Payment, and the Company will reimburse Mr Cattaneo the Deposit. In the event that during the Due Diligence the Company finds negative discrepancies greater than 5% of the book values stated in the Proposed Acquisition's financial statements dated February 28, 2018, then the Deposit shall be refunded to Mr Cattaneo. If the Company decides not to exercise the Option for any other reason during the Due Diligence, then Mr Cattaneo will forfeit the Deposit.

On May 16, 2018 the Company announced that its due diligence of the Proposed Acquisition in Indonesia, encompassing an evaluation of the legal, accounting, petroleum and fiscal aspects of the Proposed Acquisition, was in progress and that the Company now expected to complete the Due Diligence by June 15, 2018. The extension will enable the Company to further examine certain areas of the Proposed Acquisition that require clarity to satisfy the Company's stringent Due Diligence requirements. The Company also announced that it had decided to defer a decision on whether to proceed with the Proposed Acquisition until the second half of 2018 in order to focus on implementing its operational strategy in Azerbaijan.

FINANCIAL PERFORMANCE

The following table summarizes key financial indicators for the three months and year ended March 31:

	Three months ended March 31		**Year ended March 31**	
	2018	2017	**2018**	2017
Oil and gas revenue, net of royalties ($'000)	**1,720**	1,418	**5,505**	3,922
Oil and gas revenue, net of royalties – per boe ($)	**63.36**	52.81	**56.48**	54.66
Total daily oil and gas sales volumes per boe	**310**	298	**278**	197
Electricity revenue ($'000)	**170**	94	**599**	574
Electricity gas sales volumes per mcf ($)	**11.46**	8.81	**8.59**	8.82
Net income (loss) ($'000)	**(10,487)**	(47,335)	**(9,918)**	567,378
Net income (loss) per share – basic ($)	**(0.07)**	(0.45)	**(0.07)**	8.15
Net income (loss) per share – diluted ($)	**(0.07)**	(0.45)	**(0.07)**	4.54
Capital expenditures ($'000)	**2,553**	309	**5,971**	413
Weighted average number of shares – basic ('000)	**134,829**	103,256	**134,829**	69,626
Weighted average number of shares – diluted ('000)	**165,594**	103,256	**165,594**	124,951

Oil revenues are gross of selling and transportation costs and share profit for the partner in Azerbaijan; in the Financial Statements the oil revenues are net of these amounts.

To calculate all the performances in this MD&A, the Company used the gross revenues, based on its oil production.

PRODUCTION

	Three months ended March 31		**Year ended March 31**	
	2018	2017	**2018**	2017
Total volumes				
Oil (bbls) (1)	**27,146**	25,954	**97,471**	66,866
Condensate (bbls) (2)	**105**	93	**715**	692
Gas (mcf) (2)	**3,710**	4,787	**16,909**	25,124
Total oil and gas sales volumes (boe)	**27,869**	26,845	**101.274**	71,746
Electricity (gas) sales volumes (mcf)	**11,906**	10,718	**111,042**	65,152
Total sales volumes (boe)	**29,853**	26,831	**119,781**	82,604
Daily volumes				
Oil (bbls/day) (1)	**302**	288	**268**	184
Condensate (bbls/day)	**1**	1	**2**	2
Gas (mcf/day)	**41**	53	**46**	69
Total daily oil and gas sales volumes	**310**	298	**278**	197
Daily gas sales volumes for electricity	**132**	119	**304**	178
Total daily sales volumes (boe/day)	**332**	318	**329**	227

- During the financial year ended March 31, 2018 the Group produced 97,471 bbls of oil and sold 81,745 bbls of oil from its assets in Azerbaijan. There is no exact comparative data for the year ended March 31, 2017 because the effective handover data, and the consequent beginning of operations was August 11, 2016.

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

  On August 11, 2016 the handover of the Azerbaijan oil production assets, physically completed in June 2016, was formally completed with the necessary signatures on related documents and the Company began oil production activities at a rate of 300 bopd. During the period from August 11, 2016 to September 30, 2016, the Company sold 11,806 bbls of oil produced from its Azerbaijan oil production assets.

  At the end of March 2018, there were 107 bbls of unsold oil production in Azerbaijan held in inventory which were sold in subsequent months.

- During the three months and year ended March 31, 2018, the Company sold 3,710 and 16,909 mcf of natural gas production from its Italian assets as compared to 4,787 and 25,124 mcf of natural gas in the 2017 similar period. The decline in 33% was due to an interruption of production from the Lucera and Acquasalsa concessions for essential maintenance work

- During the three months and year ended March 31, 2018, the Company sold 105 and 715 bbls of condensate production from its Italian assets as compared to 93 and 692 bbls of condensate in the 2017 similar periods, recording an increase of 3%.

- During the three months and year ended March 31, 2018, the Company sold 760 and 7,975 MWh of electricity production from its Italian assets as compared to 1,524 and 9,636 MWh for the 2017 similar period, recording a decrease of 17%. This decline was due to disruption incurred to production activities in January and February 2018 for essential maintenance work.

Azerbaijan Crude Oil Production

On March 16, 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a REDPSA with SOCAR and a SOA. The REDPSA covers 642.4 sq. kilometres including the active Muradkhanli, Jafarli and Zardab oilfields located in the Lower Kura Region, about 240 kilometres inland from the city of Baku (the "**Azerbaijan Operations**").

The delivery of the capital assets, previously used in respect of the petroleum operations at the Azerbaijani Operations, from the previous operating company to Aran Oil, was officially completed on August 11, 2016, when Zenith began production activities. The transfer of operational control did not involve any interruption of oil production.

Following the successful handover on August 11, 2016 Zenith began oil production activities in Azerbaijan. During the period from August 11, 2016 to September 30, 2016 the Company produced approximately 300 bopd. Natural gas is also produced in low quantities and is used onsite. The Company, which is free to sell/export oil without restrictions, sells its oil through the Marketing and Operations Department of SOCAR ("**SOCARMO**"). A commission of 1% on total sales is payable to SOCARMO.

During the financial year ended March 31, 2018, the Group produced 97,471 bbls of oil and sold 81,745 bbls of oil from its assets in Azerbaijan. There is no exact comparative data for the year ended March 31, 2017 because the effective handover data, and the consequent beginning of operations was August 11, 2016.

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

On August 11, 2016 the handover of the Azerbaijan oil production assets, physically completed in June 2016, was formally completed with the necessary signatures on related documents and the Company began oil production activities at a rate of 300 bopd. During the period from August 11, 2016 to September 30, 2016, the Company sold 11,806 bbls of oil produced from its Azerbaijan oil production assets.

At the end of March 2018, there were 107 bbls of unsold oil production in Azerbaijan held in inventory which were sold in subsequent months.

Italy Natural Gas Production

During the three months and year ended March 31, 2018, the Company sold 3,710 and 16,909 mcf of natural gas production from its Italian assets as compared to 4,787 and 25,124 mcf of natural gas in the 2017 similar period. The decline in 33% was due to an interruption of production from the Lucera and Acquasalsa concessions for essential maintenance work

Daily gas sales volumes for electricity from Torrente Cigno per day for three months and year ended March 31, 2018 were respectively 132 mcf/d and 337 mcf/d.

Italy Condensate Production

During the three months and year ended March 31, 2018, the Company sold 105 and 715 bbls of condensate production from its Italian assets as compared to 93 and 692 bbls of condensate in the 2017 similar periods, recording an increase of 3%.

Italy Electricity production

During the three months and year ended March 31, 2018, the Company sold 760 and 7,975 MWh of electricity production from its Italian assets as compared to 1,524 and 9,636 MWh for the 2017 similar period, recording a decrease of 17%. This decline was due to disruption incurred to production activities in January and February 2018 for essential maintenance work.

Electricity production remained consistent for all the quarters since the cogeneration plant was acquired, as detailed in the following table. The decline in electricity production visible in Q4 of 2018 was the result of essential plant maintenance being performed.

Italy Electricity Production	Production MWh
Q2 2017	2,620
Q3 2017	2,774
Q4 2017	1,524
Q1 2018	2,552
Q2 2018	2,741
Q3 2018	1,922
Q4 2018	790

REVENUES	Three months ended		Year ended	
	March 31		March 31	
	2018	2017	**2018**	2017
Commodity Prices				
Oil and gas prices				
Oil (Argentina $/bbl)	**-**	**-**	**-**	63.08
Oil (Azerbaijan $/bbl)	**63.35**	**53.58**	**56.48**	57.41
Condensate ($/bbl)	**79.51**	**79.52**	**75.20**	67.94
Gas ($/mcf)	**5.41**	**7.45**	**7.80**	5.79
Total oil and gas ($/boe)	**68.96**	**52.81**	**56.34**	54.66
Electricity ($/mcf)	**14.25**	**8.81**	**5.39**	8.82
Revenues (CAD$'000)				
Oil and gas revenue				
Oil (Argentina)	**-**	-	**-**	72
Oil (Azerbaijan)	**1,720**	1.393	**5,505**	3.772
Condensate (Italy)	**9**	7	**54**	47
Gas (Italy)	**16**	18	**132**	31
Total oil and gas (CAD$)	**1,745**	1.418	**5,691**	3.922
Electricity (CAD$)	**170**	94	**599**	574
Total (CAD$)	**1,915**	1.512	**6,290**	4.496

Oil Revenue

Oil revenue earned in Azerbaijan for the three months and yer ended March 31, 2018 was CAD$1,720 and CAD$5,505 versus CAD$1,393k and CAD$3,772 in the comparative 2017 period.

The price per bbl received for oil during the three months and year ended March 31, 2018 was CAD$63.35 and CAD$56.50 per bbl, as compared to CAD$53.58 and CAD$57.41 per bbl earned on condensate sales during the three and and year ended March 31, 2017, respectively.

Condensate Revenue

The price per bbl received for condensate during the three months and year ended March 31, 2018 was CAD$79.51 and CAD$75.20 per bbl, as compared to CAD$79.52 and CAD$67.94 per bbl earned on condensate sales during the three and and year ended March 31, 2017, respectively. The condensate price per bbl is higher in the 2018 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 Revenue

The price per mcf received for condensate during the three months and year ended March 31, 2018 was CAD$5.41 and CAD$7.80 per mcf of gas, as compared to CAD$7.45 and CAD$5.79 per mcf earned on gas sales during the three and year ended March 31, 2017, respectively. The gas price per mcf is higher in the 2018 period due to an increase in the base price of European gas rates which is used in the formulas to establish the price of natural gas.

Electricity Revenue

The changes in the quarterly gross revenues achieved from the Company's electricity production activities are principally due to variations in market price.

Italy Electricity Production	Production MWh	Gross Revenues CAD$'000	Average Price CAD$/MWH
Q2 2017	2,620	$ 142k	$ 54.14
Q3 2017	2,774	$ 195k	$ 70.21
Q4 2017	1,524	$ 97k	$ 63.48
Q1 2018	2,552	$ 127k	$ 49.65
Q2 2018	2,741	$ 157k	$ 57.25
Q3 2018	1,922	$ 145k	$ 75.44
Q4 2018	790	$ 170k	$ 215

In Q4 of the 2018 FY, the average selling price of electricity was greater than in previous quarters due to the increased average market price of electricity during the period.

GENERAL AND ADMINISTRATIVE EXPENSES ("G&A")

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

	Three months ended March 31		**Year ended March 31**	
	2018	2017	**2018**	2017
	CAD$'000	CAD$'000	**CAD$'000**	CAD$'000
Professional fees	**829**	587	**1,968**	1,884
Office	**(64)**	(35)	**273**	291
Administrative	**747**	130	**1,159**	319
Salaries and benefits	**968**	148	**2,182**	864
Travel	**(37)**	514	**548**	945
Other expenses	**74**	-	**74**	3
Foreign exchange	**563**	-	**563**	(151)
	3,080	1,344	**6,767**	4,155

G&A expenses increased in the year ended March 31, 2018 versus the 2017 comparative periods, due to the increase of the expenses paid by the new incorpotaed subsidiaries. We have to clarify that the salary of the CEO &President Mr. Andrea Cattaneo, that was paid in shares, the fair value of share options issued of CAD$487k and the foreign exchange on translations of CAD$563k, are non cash-items but included in the G&A expenses.

Depletion and depreciation	Three months ended March 31		Year ended March 31	
	2018	2017	**2018**	2017
	CAD$'000	CAD$'000	**CAD$'000**	CAD$'000
Argentina	**-**	-	**-**	11
Azerbaijan	**1,103**	793	**1,636**	1,114
Italy	**491**	-	**585**	185
Other	**(349)**	-	**-**	-
Total	**1,245**	793	**2,221**	1,299
Argentina $/bbl	**-**	-	**-**	9.75
Azerbaijan $/bbl	**40.63**	30.54	**16.78**	16.94
Italy $/boe	**188.77**	-	**26.54**	11.76
Other $/boe	**n.a.**	n.a.	**n.a.**	n.a.
Total $/boe	**41.85**	30.54	**18.58**	15.85

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** *
	CAD$'000	CAD$'000	$
2018			
Fourth quarter ended March 31, 2018	617	(10,487)	(0.07)
Third quarter ended December 31, 2017	1,620	148	0.01
Second quarter ended September 30, 2017	1,115	106	0.01
First quarter ended June 30, 2017	1,667	315	0.01
2017			
Fourth quarter ended March 31, 2017	1,512	(47,335)	(0.41)
Third quarter ended December 31, 2016	1,924	(1,556)	(0.03)
Second quarter ended September 30, 2016	818	(1,150)	(0.02)
First quarter ended June 30, 2016	242	617,419	11.56

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

- The net revenues decreased in the fourth quarter of the 2018 FY year because of the reclassification, by the auditors, of the selling/transportation costs and share profit for the partner in Azerbaijan. The oil revenues are now net of these amounts.
- The net revenues increased in the third quarter of the 2018 FY because of the significant increases in the market price of oil;
- The net revenues decreased in the second quarter of the 2018 FY because the relevant stock of oil at the end of the period (2,588 bbls) was sold during the first days of the subsequent period;
- The net revenues increased in the first quarter of the 2018 FY; the capitalisation of general and administrative expenses, fully paid in past quarters and relating the Azerbaijan acquisition and the listing to the LSE, has allowed the Company to partially recover the past losses;
- The loss of the last quarter of the year ended March 31, 2017 was largely caused by Italian impairment, loss on Argentinian disposal and a revision to the valuation of the Azeri assets per the August 2016 CPR. In the Q1

statements, the assets were valued using the March 2016 CPR. All these amounts are non-cash items, and loss is not related to the profitability of the Company.

- In Q3 of the 2017 financial year the Company recorded the first full quarter of oil production from its operations Azerbaijan. The Company's revenues during Q3 of 2017 FY exceeded those of the previous 5 quarters combined.
- In Q2 of the 2017 financial year, following the successful handover on August 11, 2016, Zenith began oil production activities in Azerbaijan. Production was consistent at a rate of approximately 275 barrels of oil per day resulting in total production of 14,010 bbls for the period and a gross revenue of CAD$659k.
- Net revenues decreased in Q1 2017 due to a lack of oil sales in Argentina. Net loss, excluding gain on business combination, increased due to the decrease in net revenues combined with an increase in G&A expenses.

LIQUIDITY RISK AND CAPITAL RESOURCES

	2018	2017
Financial assets	**CAD $'000**	**CAD $'000**
Loans and receivables	1,885	1,648
Cash and cash equivalents	2,497	3,924
Total financial assets	4,382	5,572

2018	**Other financial liabilities**	**Financial liabilities at FVTPL**	**Financial liabilities at amortised cost**
Financial liabilities	**CAD $'000**	**CAD $'000**	**CAD $'000**
Trade and other payables	9,238	-	-
Loans	3,874	-	1,312
Non-convertible bond	-	407	-
Deferred consideration	-	484,205	-
Total financial liabilities	13,112	484,612	1,312

2017	**Other financial liabilities**	**Financial liabilities at FVTPL**	**Financial liabilities at amortised cost**
Financial liabilities	**CAD $'000**	**CAD $'000**	**CAD $'000**
Trade and other payables	2,912	-	-
Loans	3,894	-	1,606
Non-convertible bond	-	385	-
Deferred consideration	-	484,474	-
Total financial liabilities	6,806	484,859	1,606

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

Zenith finances its operations through a mixture of equity, debt and retained earnings. Finance requirements are reviewed by the Board when funds are required for acquisition, exploration and development of projects.

Zenith's policy is to maintain an appropriate financial position to sustain future development of the business. There were no changes to the Group's capital management approach during the year ended 31 March 2018.

Zenith's treasury functions, which are managed by the board, are responsible for managing fund requirements and investments which include banking, cash flow management, interest and foreign exchange exposure to ensure adequate liquidity to meet cash requirements.

Zenith's principal financial instruments are cash and deposits and these instruments are only for the purpose of meeting its requirement for operations.

Zenith's main financial risks are foreign currency risk, liquidity risk, interest rate risk, commodity price risk and credit risks. Set out below are policies that are used to manage such risks:

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Group's maximum credit risk exposure is limited to the carrying amount cash of CAD $2,497k (2017 – CAD $3,924k) and trade and other receivables of CAD $1,890k (2017 – CAD $1,648k).

Deposit are, as a general rule, placed with banks and financial institutions that have credit rating of not less than AA or equivalent which are verified before placing the deposits.
The composition of trade and other receivables is summarised in the following table:

	2018 **CAD $'000**	**2017** **CAD $'000**
Oil and natural gas sales	1,623	1,544
Stamp tax and other tax withholdings	31	8
Goods and services tax	19	19
Other	212	129
	1,885	1,700

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 Group considers its receivables to be aged as follows:

	2018 **CAD $'000**	**2017** **CAD $'000**
Current	1,761	1,499
90 + days	124	149
	1,885	1,648

b) Liquidity risk

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

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

As of 31 March 2018, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying Amount	**Contractual cash flow**	**Due on or before 31 March 2019**	**Due on or before 31 March 2020**	**Due after 31 March 2020**
	CAD $'000	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
Trade and other payables	9,238	9,238	9,238	-	-
Loans	5,186	5,946	283	4,682	981
Non-convertible bond	407	491	491	-	-
Deferred consideration	484,205	1,191,177	1,646	10,076	1,179,455
	499,036	1,206,852	11,658	14,758	1,180,436

c) *Foreign currency risk*

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

	Closing rate		Average rate	
	2018	**2017**	**2018**	**2017**
US dollars	1.2892	1.3310	1.2649	1.3125
Euro	1.5884	1.4222	1.5515	1.4401
Swiss Franc	1.3502	1.3299	1.3328	1.3299
British Pound	1.8060	1.6550	1.7588	1.7154

The following represents the estimated impact on net (loss)/income of a 10% change in the closing rates as at 31 March 2018 and 2017 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

	2018 CAD $'000	2017 CAD $'000
US dollars	62	280
Euro	16	84
Swiss Franc	235	244
British Pound	-	38
	313	646

d) *Commodity price risk*

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

As at 31 March 2018, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the year ended 31 March 2018 of approximately CAD $7k (2017 – CAD $4k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the year ended 31 March 2018 of approximately CAD $29k (2017 – CAD $29k).

As at March 31, 2018, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net loss for the year ended March 31, 2018 of approximately $210k (2017 – $189k).

e) *Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Group has fixed interest on notes payable, loans payable and convertible notes and therefore is not currently exposed to interest rate risk.

Capital management

The Group'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 Group manages its working capital deficiency, long-term debt, and shareholders' deficit as capital.

	2018 CAD $'000	2017 CAD $'000
Working (deficiency)/capital	(5,889)	1,437
Long-term debt	4,949	4,912
Shareholders' equity	572,912	575,447

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

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

Net debt reconciliation

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

		2018	2017
		CAD $'000	**CAD $'000**
Cash and cash equivalents		2,497	3,924
Loans – repayable within one year		(237)	(973)
Loans – repayable after one year		(4,949)	(4,527)
Non-convertible bond – repayable within one year		(407)	-
Non-convertible bond – repayable after one year		-	(385)
		(3,096)	(1,961)

	Cash	Loans due within one year	Loans due after one year	Non-convertible bond due within one year	Non-convertible bond due after one year	Total
Net debt	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
31 March 2016	**138**	**(3,210)**	**(674)**	**(697)**	**(921)**	**(5,364)**
Issue of new loans/Accretion	3,591	(1,106)	(2,277)	(130)	(78)	-
Repayment of loans/conversion	(3,171)	1829	-	798	544	-
Transfer from current to non-current	-	1,576	(1,576)	-	-	-
Foreign exchange		(62)		29	70	37
Net cash flow	3,366					3,366
31 March 2017	**3,924**	**(973)**	**(4,527)**	**-**	**(385)**	**(1,961)**

	Cash	Loans due within one year	Loans due after one year	Non-convertible bond due within one year	Non-convertible bond due after one year	Total
Net debt	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
31 March 2017	**3,924**	**(973)**	**(4,527)**	**-**	**(385)**	**(1,961)**
Issue of new loans/Accretion	138		(133)		(5)	-
Repayment of loans/conversion	(369)	369	-			-
Transfer from current to non-current	-	367	(367)	(390)	390	-
Foreign exchange			78	(17)		61
Net cash flow	(1,196)					(1,196)
31 March 2018	**2,497**	**(237)**	**(4,949)**	**(407)**	**-**	**(3,096)**

SUBSEQUENT EVENTS

a) On April 5, 2018, the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "Options"), in accordance with the Company's Stock Option Plan on April 3, 2018. A total of 9,500,000 Options have been granted to directors and persons discharging managerial responsibility ("**PDMRs**"). Further details of the Options awarded to directors and PDMRs are outlined below. The exercise price of the Options is equivalent to the Company's TSXV closing price of March 26, 2018, being CAD$0.12 (approximately £0.067). The Options are fully vested and have the duration of five years from the date of granting.

b) On April 5, 2018 The Company entered into a five-month non-convertible loan agreement for the total amount of £230,000 on April 3, 2018. The loan has a repayment schedule of five instalments commencing on May 6, 2018 with an interest rate of 7.5 percent and can be settled at any time without penalty. The first instalment was duly repaid by the Company.

   Mr Andrea Cattaneo has agreed to act as a third-party guarantor in support of the Company by pledging a total of 3,571,428 common shares in the Company, in which he has a direct beneficial interest, as collateral to the lender.

c) On April 13, 2018, the Company announced announces the termination of the exclusivity agreement (the "**Agreement**") for the acquisition of various production and exploration licences located in a Central Asian country, communicated to the market on January 12, 2018.

   The Agreement has been terminated by the Company because it did not receive the required financial information from the vendor for the due diligence process to be successfully completed.

d) On April 18, 2018 the Company announced the extension of the maturity date of the Series A Bond (the "**Bond Extension**"). The Bond Extension extends the maturity date for the Series A Bond from May 4, 2018 by six months to November 4, 2018. For the duration of the Bond Extension the interest rate of the Series A Bond has been increased to fifteen per cent per annum (15% p.a.). No further material terms will be amended in the Series A Bond or in any other document related to the 2015 Private Placement.

   Furthermore, in connection with the work undertaken on the Bond Extension, Optiva Securities Limited, the Company's joint broker, will be paid a fee consisting of: (i) £10,125 in cash (CAD$18,140.63 at an exchange rate of 1.79167); and (ii) 93,750 common share purchase warrants ("**Warrants**"). The Warrants entitle the holder to acquire one common share in the capital of Zenith at an exercise price of £0.12 (approximately CAD$0.215) for the period until May 2021.

e) On May 4, 2018 Mr. Cattaneo fully swapped his salary for the 2018 financial year in exchange for common shares in Zenith. As a result, the Company issued Mr Andrea Cattaneo 1,123,068 common shares in the capital of the Company at an average price of CAD$0.165 (approximately £0.094) for the period from April 1, 2017 until March 31, 2018. The amount of the Salary Sacrifice Shares was calculated based on Mr Cattaneo's salary as at April 1, 2017.

f) On May 25, 2018 the Company to announced that it had signed a two-year non-convertible loan facility, (the "**Facility**"), for a total amount of up to US$2,000,000 on May 24, 2018.

   The Facility will be used to provide additional funding for the Company's operations when required. It will be drawn down in tranches, with each tranche being payable four months from the drawdown date. It can be settled at any time without penalty and has no warrants attached.

g) On June 6, 2018, the Company announced that its oilfield service company subsidiary, Zena Drilling Limited, ("**Zena**"), has signed a six-month rental agreement with B Robotics W S.r.l., ("**Robotics**"), a leading Italian drilling rig manufacturer, for a BD-260 type Robotics drilling rig.

   Zena has contracted the BD-260 drilling rig in order to complete the Company's planned workover and drilling activities in the Zardab and Muradkhanli fields during the six-month period.

   Transportation of the BD-260 rig from one operation to the next in the Zardab field is expected to be relatively fast on account of the proximity of the Z-21, Z-28 and Z-3 well locations.

   Robotics has advised the Company that the BD-260 will be delivered to its field operations in Azerbaijan within 90 days. Under the rental agreement signed with Zena, Robotics has agreed to provide its highly experienced drilling personnel for the first month of operations to assist Zenith's field team.

h) On 21 June 2018, the Company announced that it has raised gross proceeds totalling, in aggregate, £2,166,898 through the successful Placing, Subscription and PrimaryBid Offer.

As a result of the Placing, Subscription and PrimaryBid Offer the Company issued a total of 54,172,451 new common shares, (the "**New Common Shares**").

Application has been made to the UK Listing Authority for the New Common Shares and the 6,721,647 Admission Shares (as defined in the prospectus dated 20 June 2018) to be admitted to the standard segment of the Official List of the UKLA and to the London Stock Exchange for admission to trading on the main market for listed securities of the London Stock Exchange ("**Admission**"). The New Common Shares and the Admission Shares will rank pari passu in all respects with the Company's existing Common Shares and it is expected that Admission will become effective and that dealings in the New Common Shares and the Admission Shares will commence on or around 8.00 a.m. on 26 June 2018. An application will also be made for the New Common Shares to be listed on the TSX Venture Exchange.

The enlarged issued share capital following Admission will be 214,094,217 common shares and the New Common Shares will comprise approximately 25.3 per cent. of the enlarged issued share capital on Admission.

GOING CONCERN

The Group's business activities, together with facts likely to affect its future operations and financial and liquidity positions are set out in the Chairman's Statement and also note 1 of the financial statements. In addition, note 23 to the financial statements discloses the Group's financial risk management policy and note 2 details out further considerations made by the Director in respect of going concern.

The Directors having made due and careful enquiry, are of the opinion that the Group has adequate working capital to execute its operations over the next 12 months. The Directors therefore have made an informed judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the annual financial statements. Further details on assumpions and conclusions drawn on going concern are included in the statement of going concern included in note 2 to the financial staements.

SHARES AND CONVERTIBLE, EXERCISABLE AND EXCHANGEABLE SECURITIES

Zenith is authorised to issue an unlimited number of Common Shares, of which 43,221,468 were issued at no par value and fully paid during the year ended 31 March 2018 (2017 – Total Common Shares in issue: 115,577,230). All Common Shares have the right to vote and the right to receive dividends. Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of this Document. The Directors of the Company may by resolution fix the rights, privileges, restrictions and conditions of the preferred shares of each series.

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

The Group's ordinary shares are all fully paid and have not been allocated a par value.

Issued	Number of common shares	Amount CAD $'000
Balance – 31 March 2016	**43,594,406**	**9,578**
Non-brokered unit private placement (i)	6,674,775	534
Finder's fee	-	- 27
Non-brokered unit private placement (ii)	3,892,875	311
Finder's fee	-	- 15
Conversion of convertible notes (iii)	2,730,000	300
Settlement of debt (iii)	312,500	31
Non-brokered unit private placement (iv)	1,519,250	122
Finder's fee	-	- 6
Balance – 30 September 2016	**58,723,806**	**10,828**
Non-brokered unit private placement (v)	1,906,050	191
Finder's fee	-	- 10
Settlement of debt (vi)	1,049,235	88
Non-brokered unit private placement (vii)	2,745,062	329
Finder's fee	-	- 4
Settlement of debt (viii)	150,000	12
Admission LSE placement (ix)	33,322,143	3,783
Fair value of warrants issued	-	- 77
Finder's fee	-	- 200
Settlement of debt (x)	668,571	78
Non-brokered unit private placement (xi)	9,000,000	1,399
Finder's fee	-	- 70
Conversion of convertible notes (xii)	3,700,000	407
Settlement of debt (xiii)	505,263	72
Conversion of convertible notes (xiv)	1,637,100	164
Conversion of convertible notes (xv)	2,170,000	239
Balance – 31 March 2017	**115,577,230**	**17,229**
Exercise of stock option (xvi)	1,000,000	-
Exercise of warrants (xvii)	1,019,250	153
Balance – 30 June 2017	**117,596,480**	**17,382**
Non-brokered unit private placement (xviii)	3,533,333	438
Finder's fee	-	- 22
Non-brokered unit private placement (xix)	2,666,667	328
Finder's fee	-	- 16
Non-brokered unit private placement (xx)	666,666	82
Finder's fee	-	- 4
Non-brokered unit private placement (xxi)	3,600,000	404
Finder's fee	-	- 20
Exercise of stock option (xxii)	1,000,000	100
Settlement of debt (xxiii)	111,131	17
Balance – 30 September 2017	**129,174,277**	**18,689**
Exercise of warrants (xxiv)	2,049,775	307
Exercise of warrants (xxv)	1,257,875	189

Exercise of warrants (xxvi)	1,306,050	261
Exercise of warrants (xxvii)	500,000	75
Exercise of warrants (xxviii)	1,612,142	322
Exercise of warrants (xxix)	3,150,000	473
Exercise of stock option (xxx)	2,000,000	200
Exercise of warrants (xxxi)	400,000	80
Exercise of stock option (xxxii)	1,000,000	150
Exercise of stock option (xxxiii)	1,650,000	202
Exercise of warrants (xxxiii)	100,000	20
Balance – 31 December 2017	**144,200,119**	**20,968**
Non-brokered unit private placement (xxxiv)	4,000,000	500
Non-brokered unit private placement (xxxv)	9,000,000	1,158
Finder's fee		- 58
Settlement of debt (xxxvi)	1,598,579	224
Balance – 31 March 2018	**158,798,698**	**22,792**

i) On April 11, 2016, the Group completed the private placement of 6,674,775 shares at CAD$0.08 per unit for gross proceeds of CAD$534k. 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 Group also paid aggregate finders' fees of CAD$27k.

ii) On April 21, 2016, the Group completed the private placement of 3,892,875 shares at CAD$0.08 per unit for gross proceeds of CAD$311k. Each unit is comprised of one common share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one common share at CAD$0.15 per common share for a period of 24 months from the date of issuance. The Group also paid aggregate finders' fees of CAD$15k and issued 179,712 warrats to certain arm's-length parties in the connection with the Private Placement.

iii) On June 9, 2016, the Group issued 2,730,000 shares at a deemed price of $0.11 per share in partial conversion of convertible notes $300k and 312,500 shares at a price of $0.10 per share creditors of the Corporation to settle debts owing by the Group totalling $31k.

iv) On June 16, 2016, the Group has closed a non-brokered private placement of 1,519,250 shares of the Group at a price of $0.08 per Unit for aggregate gross proceeds of $122k. Each unit is comprised of one common share and one common share purchase warrant. Each Warrant will be exercisable for one Common Share at a price of $0.15 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD$6k.

v) On October 10 2016, the Group closed a non-brokered private placement of 1,906,050 Common Shares at a price of CAD $0.10 per unit for aggregate gross proceeds of CAD$191k. Each unit is comprised of one Common Share and one common share purchase warrant. Each common share purchase warrant will be exercisable for one Common Share at a price of CAD$0.20 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD$10k.

vi) On 19 October 2016, the Group issued 724,235 Common Shares at a deemed price of CAD $0.085 per Common Share to certain debtholders and creditors of the Group to settle debts owing by the Group, representing an aggregate of CAD $62k. In addition the Group issued 325,000 Common Shares at a deemed price of $0.08 per share, to a service provider to settle debts owing by the Group, representing an aggregate of CAD $26k.

vii) On November 7, 2016, the Group closed a non-brokered private placement of 2,745,062 Common Shares at a price of CAD $0.12 per unit for aggregate gross proceeds of CAD $329k. Insiders of the Group subscribed for an aggregate of 2,195,475 units for aggregate subscription proceeds of CAD $263k. Each common share purchase warrant will be exercisable for one Common Share at a price of CAD $0.20 per share for a period of 24 months from the date of closing of the offering. The Company also paid aggregate finders' fees of CAD$4k.

viii) On November 30, 2016, the Group issued 150,000 Common Shares to certain debtholders and creditors of the Group (based on a price of CAD$ $0.08 per share Common Share) in settlement of a debt of GBP £7k (inclusive of accrued interest) owed by the Group in respect of services.

ix) On January 5, 2017, the Group announced that the Prospectus dated January 5, 2017 has been approved by the UK Listing Authority (the "**Prospectus**"). The Prospectus relates to admission of the Group's Common Shares to the standard listing segment of the Official List and to trading on the London Stock Exchange's Main Market ("**Admission**"). Admission and commencement of dealings in the Group's Common Shares did occur on 11 January 2017.

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

x) In January 2017, the Group issued 668,571 shares, at a deemed price of £0.07 per share, for the settlement of a debt for services of a senior manager of the Company, for an amount of £47k (CAD$78K).

xi) In January 2017, the Group entered into an agreement to proceed with a brokered private placement (the "**Private Placement**") to raise gross proceeds of GBP 855k (approximately CAD$ 1,399k) through the issue of nine million (9,000,000) new common shares of the Group at a price of GBP 0.095 (approximately CAD$ 0.1565) per share. In addition to the New Common Shares, under the Private Placement each subscriber received one warrant (the "Warrant") for every New Common Share purchased. Each Warrant shall entitle the Warrant holder to subscribe for new Common Shares in the Group at a price of GBP 0.15 per common share (approximately CAD$ 0.247), exercisable at any time until 1 February 2019. The Company also paid aggregate finders' fees of CAD$70k.

xii) On January 30, 2017, the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Francs), issuing an amount of 3,700,000 Common Shares of Zenith with an aggregate value of CAD$407k (approximately £247k). The terms of this conversion were comprehensively outlined in the Prospectus issued by the Group on January 2018, stating that the conversion mechanism requires a conversion price of CAD$ 0.11 (£0.0677).

xiii) On March 14, 2017, the Group issued 505,263 common shares in the capital of the Corporation at a deemed price of $0.1425 per Common Share, to settle certain debts owing by the Corporation. The Group further confirms that the debts have been fully paid, with the balance being settled in cash. The Common Shares issued pursuant to the Share Settlement are subject to a four-month hold period.

xiv) On March 21, 2017, Gunsynd PLC elected to fully convert its £100k principal amount unsecured convertible note into common shares of the Group at the conversion price of CAD$0.10, as outlined in the Group's prospectus published on January 2017. Upon conversion of the Convertible Note 1,637,100 Common Shares will be issued to Gunsynd. This fully extinguishes Zenith's GBP convertible debt.

xv) On March 21, 2017, the Group completed a further conversion of Convertible Notes denominated in CHF (Swiss Franc), issuing an amount of 2,170,000 Common Shares of Zenith with an aggregate value of CAD$239k (approximately £143k). The terms of this conversion were comprehensively outlined in the Prospectus issued by the Group on January 2017, stating that the conversion mechanism requires a conversion price of CDN$ 0.11 (£0.06588).

xvi) On May 25, 2017, the Group announced that, following its announcement on February 22, 2017 that a Director of the Group had exercised an option to acquire 1,000,000 new Common Shares in the capital of the Group, the Option Shares have been issued on May 23, 2017 following confirmation by Mr. Regis Milano of the custodian to whom they should be issued.

xvii) On June 29, 2017, an investor in the Group exercised warrants to acquire 1,019,250 new common shares of no par value in the capital of the Group. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received CAD$153k (approximately £91k).

xviii) On July 14, 2017, the Group closed a non-brokered private placement of 3,533,333 Common Shares at a price of CAD $0.123956 per unit for aggregate gross proceeds of CAD $438k (approximately £265k). The Group also paid aggregate finders' fees of CAD$22k (approximately £13k).

xix) On August 2, 2017, the Group completed a non-brokered private placement of 2,666,667 Common Shares at a price of CAD $0.1230606 per unit for aggregate gross proceeds of CAD $328k (approximately £200k). The Group also paid aggregate finders' fees of CAD$16k (approximately £10k).

The proceeds of the Private Placement were used to fund Zenith's acquisition of oil production equipment and provide general working capital.

xx) On August 2, 2017, the Group completed a non-brokered private placement of 666,666 Common Shares at a price of CAD$0.1230606 per unit for aggregate gross proceeds of CAD $82k (approximately £50k). The Group also paid aggregate finders' fees of CAD$4k (approximately £2.5k). The proceeds of this Private Placement fund the Group's acquisition of oil production equipment and provide general working capital

xxi) On September 11, 2017, the Group closed a non-brokered private placement of 3,600,000 Common Shares at a price of CAD$0.11 per unit for aggregate gross proceeds of CAD$404k (approximately £252k). The Group also paid aggregate finders' fees of CAD$20k (approximately £13k).

The proceeds of this Private Placement were used to fund Zenith's transformational oil production operations in Azerbaijan.

xxii) On September 27, 2017 the Group announced that a Director of Zenith had exercised part of his stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$100,000 (approximately £60k).

xxiii) On September 28, 2017 the Group announced that a Director of the Company, in accordance with TSX Venture Exchange rules, had swapped part of his salary for the first two quarters of the 2018 financial year for the equivalent of CAD$2.5K per months, for a total of CAD$15k (approximately £9k). As a result, the Director will receive 111,131 common shares in the capital of the Company at an average price of approximately CAD$0.14 for the period April 1, 2017 until December 31, 2017.

xxiv) On October 12, 2017 an investor in the Company exercised warrants to acquire 2,049,775 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$307k (approximately £186k).

xxv) On October 19, 2017 an investor in the Company exercised warrants to acquire 1,257,875 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$189k (approximately £114k).

xxvi) On October 23, 2017 an investor in the Company has exercised warrants to acquire 1,306,050 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.20 per share, and the total consideration received was CAD$261k (approximately £160k).

xxvii) On November 2, 2017 an investor in the Company exercised warrants to acquire 500,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received was CAD$75k (approximately £44k).

xxviii) On November 8, 2017 an investor in the Company exercised warrants to acquire 1,612,142 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.20 per share, and the total consideration received CAD$322k (approximately £195k).

xxix) On November 22, 2017 an investor in the Company exercised warrants to acquire 3,150,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received CAD$473k (approximately £284k).

xxx) On November 23, 2017 a Director of the Company exercised stock options to acquire 2,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.10 per share, and the total consideration received CAD$200k (approximately £118k).

xxxi) On December 11, 2017 an investor in the Company exercised warrants to acquire 400,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.20 per share, and the total consideration received CAD$80k (approximately £47k).

xxxii) On December 15, 2017 a Director of the Company exercised stock options to acquire 1,000,000 new common shares of no par value in the capital of the Company. The exercise price of the warrant was CAD$0.15 per share, and the total consideration received CAD$150k (approximately £87k).

xxxiii) On December 18, 2017 the Company announced that a Director of the Company had exercised stock options to acquire 500,000 new common shares of no par value in the capital of the Company at an exercise price of CAD$0.10 per stock option (approximately £0.06) at a total cost of CAD$50,000 (£30k).

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

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

xxxiv) On January 10, 2018, the Company closed a private placement to raise gross proceeds of CAD$500k (approximately £297k) through the issue of 4,000,000 new common shares of no par value in the capital of the Company at a price of CAD$0.125 (approximately £0.0742) per new common share with Canadian investors. The proceeds of the private placement have been allocated for the purchase of equipment to develop the Company's oil production operations in Azerbaijan. The Company also paid finder's fees for £3k (approximately CAD$5k).

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

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

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

xxxvi) On January 24, 2018 the Company agreed to issue 1,598,579 common shares at a deemed price of CAD$0.14 to settle a debt of US$180,000 owing by the Company.

WARRANTS AND OPTIONS

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD $'000
Balance – 31 March 2016	**-**	**29,638,898**	**0.23**	**1,510**
Unit private placements	-	12,591,612	0.15	-
Unit private placements	-	4,651,112	0.20	-
Unit private placements	-	1,114,286	0.11	77
Unit private placements	-	9,000,000	0.24	-
Options issued	6,000,000	-	0.10	290
Options excercised	(1,000,000)	-	0.10	-
Balance – 31 March 2017	**5,000,000**	**56,995,908**	**0.21**	**1,877**
Options issued	2,750,000	-	0.12	217
Options issued	2,000,000	-	0.13	258
Warrant issued	-	180,000	0.07	12
Warrants excercised	-	(1,019,250)	-	-
Options excercised	(3,900,000)	-	0.10	(226)
Options excercised	(1,750,000)	-	0.12	(98)
Warrants excercised	-	(10,375,842)	0.25	(107)
Warrants expired	-	(2,349,320)	0.15	(76)
Warrants expired	-	(16,403,852)	0.25	(982)
Balance – 31 March 2018	**4,100,000**	**27,027,644**	**0.19**	**875**

Stock Options

Type	Grant Date	Number of options	Exercise price per unit CAD$	Expiry Date
Stock options	November 2016	**1,100,000**	0.10	November 2021
Stock options	May 2017	**1,000,000**	0.15	May 2022
Stock options	November 2017	**2,000,000**	0.18	November 2022
	TOTAL	**4,100,000**		

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

As at March 31, 2018, the Group had 4,100,000 stock options outstanding (relating to 4,100,000 shares) and exercisable at a weighted average exercise price shown on the table above per share with a weighted average life remaining of 4.26 years.

The fair value of the options was calculated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	100%
Expected life	5 years
Dividends	Nil

Granting of options

On November 18, 2016, the Company granted options to certain of its Directors and employees to acquire a total of 6,000,000 Common Shares pursuant to its Stock Options Plan. Each option granted entitles the relevant holder to acquire one common share for an exercise price of CAD$0.10 per Common Share.

The expiry date of the options is the date falling five years from the date of grant, being 18 November 2021.

The Stock Options Plan was approved by shareholders of the Company at the last AGM held on January 20, 2017.

On February 22, 2017, the Company announced that a Director of the Company had exercised stock options to acquire a total of 1,000,000 common shares in the capital of the Company at a price of CAD$0.10 per common share and a total cost of CAD$100k.

On May 17, 2017, Zenith granted additional options to certain of its Directors and employees to acquire a total of 2,750,000 common shares in accordance with Zenith's Stock Options Plan. Each stock option entitles the relevant holder to acquire one common share for an exercise price of CAD$0.15 per common share. The expiry date of the options is the date falling five years from the date of grant, being May 17, 2022.

On November 29, 2017, the Company granted additional options to certain of its Directors and employees to acquire a total of 2,000,000 common shares in accordance with Zenith's Stock Options Plan. Each stock option entitles the relevant holder to acquire one common share for an exercise price of CAD$0.175 per common share. The expiry date of the options is the date falling five years from the date of grant, being November 29, 2022.

Exercise of options

On May 25, 2017, the Company announced that following Zenith's announcement of February 22, 2017, that a Director of the Company had exercised stock options to acquire 1,000,000 new Common Shares in the capital of the Company, the option shares were issued on May 23, 2017 following confirmation by the Director of the custodian to whom they should be issued.

During the year ended March 31, 2018, Directors and Senior Mangement of the Company exercised their stock options to purchase common shares in the capital of the Company as follows:

- On September 27, 2017, Mr. Cattaneo exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$100,000 (£60k);
- On November 23, 2017, Mr. Cattaneo exercised stock options to purchase 2,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$200,000 (£118k);
- On December 15, 2017, Mr. Cattaneo exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.15 per Common Share and a total cost of CAD$150,000 (£87k).
- On December 18, 2017, the Company announced that a Director of the Company, Mr. Erik Larre, had exercised stock options to acquire 500,000 new common shares of no par value in the capital of the Company at an exercise price of CAD$0.10 per stock option (approximately £0.06) at a total cost of CAD$50,000 (£30k).
- On December 18, 2017, the Company announced that its Chief Financial Officer, Mr. Luca Benedetto, of the Company had exercised stock options to acquire a total of 1,150,000 new common shares of no par value in the capital of the Company. 400,000 of the new common shares had an exercise price of CAD$0.10 per new share (approximately £0.0583). The remaining 750,000 new common shares had an exercise price of CAD$0.15 (approximately £0.0874). The total consideration for the Chief Financial Officer's exercise of stock options was CAD$152,000 (approximately £91k).

Warrants

Type	Grant Date	Number of Warrants	Exercise Price per unit CAD$	Expiry Date
Warrants	Apr 2015	**1,417,500**	0.25	April 2018
Warrants	May 2015	**390,000**	0.25	May 2018
Warrants	September 2015	**1,350,000**	0.25	September 2018
Warrants	November 2015	**4,214,125**	0.25	November 2018
Warrants	April 2016	**8,128,813**	0.15	April 2018
Warrants	June 2016	**500,000**	0.20	June 2018
Warrants	November 2016	**732,920**	0.20	November 2018
Warrants	January 2017	**1,114,286**	0.11	January 2019
Warrants	January 2017	**9,000,000**	0.24	January 2019
Warrants	January 2018	**180,000**	0.17	January 2020
	TOTAL	**27,027,644**		

As at March 31, 2018, the Group had 27,027,644 warrants outstanding (relating to 27,027,644 shares) and exercisable at a weighted average exercise price of CAD$0.21 per share with a weighted average life remaining of 0.52 years.

7,805,438 warrants expired during April 2018, at an exercise price of CAD$0.15 per warrant. 1,417,500 warrants expired during May 2018 at an exercise price of CAD$0.25 per warrant.

On April 5, 2018 the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "Options"), in accordance with the Company's Stock Option Plan on April 3, 2018. A total of 9,500,000 Options have been granted to directors and persons discharging managerial responsibility ("**PDMRs**"). Further details of the Options awarded to directors and PDMRs are outlined below. The exercise price of the Options is equivalent to the Company's TSXV closing price of March 26, 2018, being CAD$0.12 (approximately £0.067). The Options are fully vested and have the duration of five years from the date of granting.

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 Group paid a finder's fees of GBP 11.25k ($21k) 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 the warrants was calculated using the Black-Scholes pricing model calculations based on the following significant assumptions:

Risk-free interest rate	0.50% - 0.70%
Expected volatility	75-100%
Expected life	2 years
Dividends	Nil

POST BALANCE SHEET EVENT

a) 7,805,438 warrants expired during April 2018, at an exercise price of CAD$0.15 per warrant. 1,417,500 warrants expired during May 2018 at an exercise price of CAD$0.25 per warrant.

b) On April 5, 2018, the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "**Options**"), in accordance with the Company's Stock Option Plan on April 3, 2018. A total of 9,500,000 Options have been granted to directors and persons discharging managerial responsibility ("**PDMRs**"). Further details of the Options awarded to directors and PDMRs are outlined below. The exercise price of the Options is equivalent to the Company's TSXV closing price of March 26, 2018, being CAD$0.12 (approximately £0.067). The Options are fully vested and have the duration of five years from the date of granting.

RELATED PARTY TRANSACTIONS

Related party transactions are considered to be in the normal course of operations and are initially recognised at fair value. Related party transactions during the years ended 31 March 2018 and 2017 not disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in trade and other payables is CAD$ nil (2017 – CAD$ nil) due to a Director of the Group in respect of general and administrative expenditures made on behalf of the Group for which the director will be reimbursed.

b) Included in trade and other payables is CAD$164k (2017 – CAD$nil) due a Director of the Group, Mr. Andrea Cattaneo. in respect of salaries. Mr. Cattaneo fully swapped his salary for the 2018 financial year in exchange for common shares in Zenith. The Salary Sacrifice Shares was calculated based on Mr Cattaneo's salary as at April 1, 2017 and were issued on May 4, 2018.

c) Mr. Andrea Cattaneo, Chief Executive Officer and President of the Company, as of March 31, 2018 has granted personal bank guarentees in favour of Zenith Energy Ltd., (the "Guarantees"), currently totaling the amount of USD 2,005,336.70, as listed below:

   - Surety guarantee provided on August 29, 2016 in favor of Jiu Feng Investment Hong Kong Limited for the total amount of US$2,185,336.70. In the month of February 2017 the total amount of the guarantee decreased to US$1,485,336,70, as the the Company repaid part of the debt;

   - Surety guarantee provided on March 1, 2017 in favour of Rabita Bank in Azerbaijan for the total amount of USD 520,000.00 (Ref.: USD $320,000 General Line of Credit Agreement (Azerbaijan) and USD $200,000 General Line of Credit Agreement (Azerbaijan), as stated at page page 38 of the Financial Statements);

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

d) During the year ended March 31, 2018 a Director of Zenith, Mr. Andrea Cattaneo, has exercised his stock options, to purchase common shares in the capital of the Company, as follows:

   - On September 27, 2017 exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$100,000 (approximately £60k);

   - On November 23, 2017 exercised stock options to purchase 2,000,000 common shares in the capital of the Company at a price of CAD$0.10 per Common Share and a total cost of CAD$200,000 (approximately £118k);

   - On December 15, 2017 exercised stock options to purchase 1,000,000 common shares in the capital of the Company at a price of CAD$0.15 per Common Share and a total cost of CAD$150,000 (approximately £87k).

e) On September 28, 2017, the Group announced that a Director of Zenith, Mr. Andrea Cattaneo, had, in accordance with TSX Venture Exchange rules, in part swapped his salary for the first two quarters of the 2018 financial year for the equivalent of CAD$2.5K per months, for a total of CAD$15k (approximately £9k). As a result, Mr. Andrea Cattaneo received 111,131 common shares in the capital of the Group at an average price of approximately CAD$0.14 per share, for the period April 1, 2017 until March 31, 2018.

f) During the year ended March 31, 2018 a Director of Zenith, Mr. Andrea Cattaneo, purchased a total amount of 3,075,000 common shares of no par value in the capital of the Company at an average price of CAD$0.14627 per common share (approximately £0.0809), and a total amount of CAD$407k (approximately£225k).

g) During the year ended March 31, 2018 a Director of Zenith, Mr. Andrea Cattaneo, sold no. 1,250,000 common shares of no par value in the capital of the Company and transferred a total amount of 2,868,500 common shares of no par value in the capital of the Company, to certain financial advisers for services rendered to Mr. Cattaneo

h) As of March 31, 2018 Mr. Andrea Cattaneo has a direct beneficial interest in a total of 4,595,116 common shares in the capital of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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

OUTLOOK

Zenith's business activities, together with facts likely to affect its future operations and financial and liquidity positions are set out in the note 2 of the financial statements. In addition, note 23 of the financial statements discloses the Company's financial risk management policy, and note 3 details further considerations made by the Board of Directors in respect of going concern.

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

The Company's primary operational goal is to successfully increase oil production from its Azerbaijan assets, as well as consolidating its Italian energy production and exploration portfolio. The Company is also pursuing acquisitions of oil and gas production and exploration assets with significant undeveloped commercial value where the Company's operational qualities can be best applied.

THE COMPANY'S PLANS FOR THE 2018 FINANCIAL YEAR INCLUDE:

(a) **Italy:** After the acquisition of 9 producing licenses and 4 exploration applications from Mediterranean Oil & Gas Plc., Zenith has evaluated drilling opportunities in these permits and will formalise 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 assets. Natural gas from two assets 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 in the Macchia Nuova area (part of the San Teodoro Concession) and plans are being formulated to drill this prospect in the future. Plans for sidetrack drilling operations at the Masseria Petrilli and the drilling of a new well in the San Teodoro concession are also being evaluated. These activities are expected to increase Zenith's natural gas production in Italy.

Submission of extensive environmental reports relating to the commencement of production of the Torrente Vulgano and Canaldente gas concessions has been completed and preliminary approval has been received. The Company is now looking forward to finally placing these wells on production once final approval is received. Production of natural gas from the Torrente Vulgano and Canaldente assets is expected to commence in mod 2019.

Improvements of facilities at San Teodoro will be completed with the tie-in of new dehydration equipment. While the field has been capable of production, a lack of regional infrastructure has 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 asset, which is anticipated to resume production in June 2018. Production from the existing wellbore is expected to commence at 3,000 cubic meters/day (106 mcf/d or 18 boepd), increasing Zenith's current daily production in Italy by 25%, to over 100 boepd. The costs of the refurbishment necessary for the resumption of production have been calculated as €300k and will be paid through an equipment leasing facility.

Zenith is also evaluating the possibility of drilling a deviated well into the crestal formation of the Torrente Salsola structure, where the Company has a 100% working interest, in order to unlock residual reserves. The Company has an ambitious programme to enhance its Italian daily gas production rate in the Puglia Region by 100% by performing a number of well workovers as part of a rehabilitation programme.

Zenith intends 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 enabling it to be sold into the national pipeline grid. The development plan will be submitted to the relevant authorities for their analysis and necessary prior approval. Approval is expected to be received by March 2019.

(b) **Azerbaijan:** On June 20, 2016, the Rehabilitation, Exploration, Development and Production Sharing Agreement ("**REDPSA**") for the Area in the Republic of Azerbaijan was ratified by the Parliament of the Republic of Azerbaijan and enacted into national law once signed by the President of the Republic of Azerbaijan. The Area covers an area of 642.4 sq. kilometres and, at the time of the formal finalisation of the transaction, the Area was producing approximately 300 bopd, having produced significantly larger quantities historically. Minor quantities of natural gas are also produced and used onsite. In subsequent months the Company reported increases in its production.

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

Zenith's corporate office in Baku, the capital of Azerbaijan, is approximately 2 hours by car from Zenith's field office where field operations are managed, located in the southern region of Azerbaijan. Azeri field management personnel have been supplemented with the hiring of international managers and petroleum engineers who provide international expertise and specialist knowledge in order to achieve Zenith's strategy of significantly increasing oil production from the Area.

Zenith Aran, the Company's wholly-owned subsidiary, acts as the operating entity for the management of the Azerbaijan oil assets.

On August 11, 2016, the handover of the Azerbaijan assets was formally completed with the necessary signatures on related documents and the Company commenced crude oil production at approximately 275 bopd under Zenith's ownership.

The Company sells its oil through SOCAR's Marketing and Operations Department ("**SOCARMO**"). A related commission of 1% on total oil sales is payable by the Company to SOCARMO.

Field rehabilitation Activities

The Company has undertaken numerous workovers and other operational activities between the effective date of the REDPSA in August 2016 and in March 2017 as summarized in the following table.

January 2017	Signed a service contract with a well-established local oilfield service company to perform the workovers of wells M-195 and M-45 located in the Muradkhanli field
February 2017	Division of the field rehabilitation activities between two teams: 'Team A' and 'Team B'. • Team B was staffed by personnel from the oilfield service company contracted to perform the workovers of wells M-195 and M-45, operating the Service Company's workover rig. • Team A was staffed by Zenith's field personnel, operating the Company's A-80 workover rig inherited by SOCAR.
March 2017	1. Successfully resolved obstructions in Well M-195, enabling to reach the top of the production liner section at 3,014 metres. 2. Modernisation work of its A-80 rig was fully completed. 3. Installation of a new ESP in wells M-70 and M-48 in the Muradkhanli field and well C-34 in the Jafarli field
April 2017	1. Pump replacements in wells C-31 and C-34 in Jafarli field and wells M-67 and M-70 in the Muradkhanli field. 2. Well C-39 in the Jafarli field had pump repair work performed to address minor technical problems. 3. The field rehabilitation activities resulted in a net increase of 14 barrels of oil per day in total across the five wells. 4. Team A began workover operations at well M-45 in the Muradkhanli field.

	5. The Company also commenced sidetrack operations at well M-195 with the arrival of the required larger workover rig.
May 2017	Announced the appointment of a Chief Operating Officer, Mike Palmer, to lead its operations in Azerbaijan
June 2017	Announced the success of its sidetrack operations at well M-195.
July 2017	1. The workover of M-45 was successfully completed; a production rate of 46 BOPD was achieved, but potentially higher flowrates were inhibited by partial blockages of old well material. 2. Restored production at well M-66 in the Muradkhanli field, achieving a flow rate of 50 BOPD.
August 2017	1. Signed a contract for the procurement of oil production materials with Kerui petroleum, a leading Chinese manufacturer of oilfield equipment, for a value of the procurement contract of US$1,705,608 (approximately £1,325,000; CAD$2,146,000), by whick: • Zenith paid the 15% of the contract value in advance as deposit. • The materials procured include: a blowout preventer (BOP); a full set of well control equipment; drill pipes to be used as a work string; tubing to be used in the installation of new electric submersible pumps and in old wells that have been returned to production; new oilfield infrastructure; lighting equipment; and a generator system to enable a workover rig to operate without the need for nearby infrastructure across Zenith's 642.4 km2 field area. 2. Successful installation of the custom-built Schlumberger ESP in well M-45 in the Muradkhanli field. Following the installation, the well achieved a production rate of 49 BOPD.
September 2017	1. Began the installation of ESPs in a further 11 wells, employing its own A-80 workover rig, upgraded earlier in the year, and a similar sized workover rig operated by an experienced local oilfield service company. 2. Successful perforation of well C-26 in the Jafarli field; the well achieved a production rate of 70 BOPD; it was previously not producing.
October 2017	1. Successful perforation of a new, unexploited production zone in well C-21 in the Jafarli field, achieving a flow rate of 15 BOPD. Prior to the perforation well C-21 was non-producing. 2. Experienced difficulties in its workover of the Z-21 well, which initially flowed at a rate below 5 BOPD.
December 2017	1. Cleaned out well Z-28. However, during the post-workover inspection of the wellhead, Zenith's petroleum engineers observed a leak during a pressure test from the wellhead in the 9 5/8 inches casing seal assembly, delaying further activity. To resolve this problem, the Company contracted a UK-based expert in oilfield leak-sealing technology, with an established presence in Azerbaijan 2. Completed the civil works on the roads to well Z-21 and at the well location.
January 2018	Signed a purchase agreement for the order of a new workover rig with a manufacturer based in Azerbaijan. The total value of the purchase agreement contract was approximately CAD$440k (approximately £251k).
February 2018	1. Successfully cleaned out the entirety of the tubing string in well Z-21, circulating and drilling out mud and debris that had accumulated since the well was last produced in 1988. Due to the small coiled tubing bit (1.875 inches) and the restricted diameter of the tubing, the casing could not be cleaned out further. To rectify this the Company prepared its A-80 workover rig to pull the tubing string from the well. Once completed, it will run in hole with a drill bit and clean out the casing to total depth, 3,982 metres. The well will subsequently be put on production.

	2. Successfully sealed the wellhead leaks in well Z-28 and subsequent coiled tubing intervention cleaned out the well to a depth of 3,583 meters, however it was determined it would have to mill out 63 metres of tubing inside the liner and then clean out an additional 298 metres of the liner to a total depth of 3,944 metres to complete the workover. 3. A-80 workover rig received further upgrades to increase its capabilities and enable it to be utilised more extensively in the Company's workover operations. This will be supplemented by A-100 truck-mounted workover rig ordered in January 2018. 4. Successfully installed seven ESPs. While this resulted in an uplift in production, it has also reduced production downtime that had been observed as a recurrent problem with the previous generation ESPs.

Stable production rates have increased by about 25 STB/d since the Effective Date of the REDPSA. One workover rig is active at present. One new workover rig has been purchased and is scheduled to be operational in June 2018. Additional equipment may be purchased or contracted as required to optimize field redevelopment. Between 2018 and 2020, The Company plans to workover a total of 38 existing wells which are currently inactive or produce at low rates to bring rates up to as much as 40STB/d per well, using improved technology, non-damaging fluids and optimized treatments. It is expected that 12 wells will be worked over in 2018, fifteen wells in 2019 and eleven in 2020.

If fully successful, the workover of 12 wells in 2018 could increase production by up to 40STB/d, achieving a field production rate of up to 780STB/d by Year End 2018.

An additional increase in production up to the Company's goal of 1,000 STB/d could be achieved from the resizing or resetting of EPS's and purchase of additional equipment. This case has not been reflected in the economics analysis, herein. On this basis, the field oil production rate will exceed 1.5 times the average 2015 rate in late 2018, ensuring that the Company will retain its rights under the REDPSA.

The historical performance of each well including peak rates, cumulative oil water production, and recent performance has been studied to identify wells that are likely to have successful workover. The results of previous workovers were noted. Although most wells flow to surface, the installation of electrical submersible pumps was usually very beneficial and is expected to form part of most future workovers.

In addition to the 33 recently shut in or marginal producing wells, five non-producing wells completed in the Maykop zone in the Zardab field are expected to be worked over and to be returned to production after wellbore and sand production problems have been resolved. Depending on the results of the programme, the Zardab field may be more fully developed, but new drilling in Zardab is not evaluated in this report.

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 CAD$50k per annum.

BUSINESS RISKS AND UNCERTAINTIES

The Company has production operations in Azerbaijan and Italy, and primarily centres its focus on the successful development of its operations in these countries. Some of the Company's operations and related assets are located in countries which carry a higher degree of political and economic risk.

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, natural gas and electricity 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;
- Operational 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 minimise these business risks by:

- Employing management, technical staff and consultants with extensive industry experience;
- Maintaining a low-cost structure;
- Enforcing prudent financial practices;
- Ensuring effective oversight on the timing and magnitude of operations and their related capital costs;
- Working with established industry partners; and
- Being insured, in accordance with industry standards, against the risk of liabilities such as pollution, blow-outs, property damage, personal injury and other hazards.

OTHER

Additional information about the Company can be found on SEDAR at: **www.sedar.com**.