THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this Document or the action you should take, you are recommended to seek your own financial advice immediately from an appropriately authorised stockbroker, bank manager, solicitor, accountant or other independent financial adviser who, if you are taking advice in the United Kingdom, is duly authorised under the Financial Services and Markets Act 2000 ("FSMA").

This Document comprises a prospectus relating to Zenith Energy Ltd. (the "Company") prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (the "FCA") made under section 73A of FSMA and approved by the FCA under section 87A of FSMA. This Document has been filed with the FCA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

Application has been made to the FCA for all of the common shares in the Company (issued and to be issued in connection with the Placing) (the "**Common Shares**") to be admitted to the Official List maintained by the FCA (the "**Official List**") (by way of a standard listing under Chapter 14 of the listing rules published by the UK Listing Authority under section 73A of FSMA as amended from time to time (the "**Listing Rules**")) and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Common Shares to be admitted to trading on the London Stock Exchange's main market for listed securities (together, "**Admission**"). It is expected that Admission will become effective, and that unconditional dealings in the Common Shares will commence, at 8.00 a.m. on 11 January 2017.

THE WHOLE OF THE TEXT OF THIS DOCUMENT SHOULD BE READ BY PROSPECTIVE INVESTORS. YOUR ATTENTION IS SPECIFICALLY DRAWN TO THE DISCUSSION OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE COMMON SHARES, AS SET OUT IN THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 21 OF THIS DOCUMENT.

The Directors and Proposed Director, whose names appear on page 45, and the Company accept responsibility for the information contained in this Document. To the best of the knowledge of the Directors, the Proposed Director and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this Document is in accordance with the facts and contains no omission likely to affect its import.

ZENITH ENERGY

(Incorporated in British Columbia, Canada under the Business Corporations Act (British Columbia))

Placing of 33,322,143 Common Shares of no par value at a Placing Price of 7p per Common Share and admission to the Official List (by way of a Standard Listing under Chapter 14 of the Listing Rules) and to trading on the London Stock Exchange's main market for listed securities

COMMON SHARES IN ISSUE IMMEDIATELY FOLLOWING THE PLACING

Number of fully paid Common Shares

98,564,867

The Placing comprises an offer by the Company of 33,322,143 Placing Shares. Optiva Securities Limited, who is authorised and regulated by the FCA in the United Kingdom, is acting exclusively for the Company and no one else in relation to the Placing. Optiva Securities Limited will not regard any other person (whether or not a recipient of this Document) as its client in relation to the Placing and will not be responsible to anyone (other than the Company) for protections afforded to the clients of Optiva Securities Limited or for providing any advice in relation to the Placing, the contents of this Document or any transaction or arrangement referred to herein. No liability whatsoever is accepted by Optiva Securities Limited for the accuracy of any information or opinions contained in this Document or for the omission of any material information, for which it is not responsible. However, nothing in this paragraph excludes or limits any responsibility which Optiva Securities Limited may have under the Financial Services and Market Act 2000 or the regulatory regime established thereunder, or which, by law or regulation cannot otherwise be limited or excluded.

This Document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer or invitation to buy or subscribe for, Common Shares in any jurisdiction where such an offer or solicitation is unlawful or would impose any unfulfilled registration, publication or approval requirements on the Company.

The Common Shares are and, notwithstanding Admission, will continue to be, listed on the TSX Venture Exchange, a market operated by the TMX Group. However, this Document has not been approved by any securities regulatory authority in Canada.

The Common Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state or other jurisdiction of the United States or qualified for sale under applicable securities laws of Australia, Canada, Japan or the Republic of South Africa. Subject to certain exceptions, the Common Shares may not be, offered, sold, resold, transferred or distributed, directly or indirectly, within, into or in the United States or to or for the account or benefit of U.S. persons (as defined in Rule 902 under the Securities Act) or to persons in the United States, Australia, Canada (other than pursuant to exemptions from the prospectus requirement under Canadian securities legislation), Japan, the Republic of South Africa or any other jurisdiction where such offer or sale would violate the relevant securities laws of such jurisdiction. The Placing Shares may not be resold in Canada or to a resident of Canada for a period of four months and one day following Admission.

The distribution of this Document in or into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this Document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Application has been made for the Common Shares to be admitted to a Standard Listing on the Official List. A Standard Listing will afford investors in the Company a lower level of regulatory protection than that afforded to investors in companies with Premium Listings on the Official List, which are subject to additional obligations under the Listing Rules.

It should be noted that neither the UK Listing Authority nor the London Stock Exchange will have the authority to (and will not) monitor the Company's compliance with any of the Listing Rules or the disclosure requirements and transparency rules which the Company has indicated herein that it intends to comply with on a voluntary basis, nor to impose sanctions in respect of any failure by the Company to so comply.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA or Rule 3.4 of the Prospectus Rules, the publication of this Document does not create any implication that there has been no change in the affairs of the Group since, or that the information contained therein is correct at any time subsequent to, the date of this Document. Notwithstanding any reference herein to the Company's website, the information on the Company's website does not form part of this Document.

This prospectus is dated 5 January 2017.

CONTENTS

PART 1

SUMMARY

*Summaries are made up of disclosure requirements known as "**Elements**". These Elements are numbered in Sections A—E (A.1—E.7).*

This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".

SECTION A – INTRODUCTION AND WARNINGS		
A.1	**Warning to investors**	This summary should be read as an introduction to this Document. Any decision to invest in the Common Shares should be based on consideration of this Document as a whole by the investor. Where a claim relating to the information contained in this Document is brought before a court the plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating this Document before legal proceedings are initiated. Civil liability attaches only to those persons who have tabled this summary including any translation thereof, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Document or it does not provide, when read together with the other parts of this Document, key information in order to aid investors when considering whether to invest in such securities.
A.2	**Consent for intermediaries**	Not applicable. The Company has not given its consent to the use of this Document for the resale or final placement of the Common Shares by financial intermediaries.

SECTION B – ISSUER		
B.1	**Legal and commercial name**	The legal and commercial name of the issuer is Zenith Energy Ltd.
B.2	**Domicile/Legal Form/ Legislation/Country of Incorporation**	The Company is a corporation domiciled in British Columbia, Canada. The Company was incorporated and registered as Canoel International Energy Ltd. under the Business Corporations Act (British Columbia) on 20 September 2007 and changed its name to Zenith Energy Ltd. on 2 October 2014. The Company's registered corporation number is BC0803216. The Company is governed by its Articles and the principal legislation under which the Company operates and under which the Common Shares are issued is the Business Corporations Act (British Columbia), SBC 2002 c57.

B.3	**Current operations/ Principal activities and markets**	**Introduction** The Company is an international oil and gas exploration, development and production company incorporated and domiciled in Canada. The Company has a portfolio of oil and gas assets in Argentina, Italy and Azerbaijan. The Group's principal assets are held through: (i) its wholly-owned subsidiaries Ingenieria Petrolera Patagonia Ltd. and Zenith Aran Oil Company, which hold, respectively, 100% working interests in two oil fields, Alberto and Don Ernesto in Argentina, and an 80% interest in three petroleum producing onshore fields in Azerbaijan; and (ii) Canoel Italia S.r.l. (in which the Company has a 98.64% shareholding), which holds various working interests in 13 onshore exploration and production properties in Italy. **Business Strategy** The Company's strategy is to, inter alia, (i) grow through international acquisitions; (ii) increase the production and reserves from its international inventory of oil and gas assets; (iii) target its operations at areas with advantageous access points for its exploration activities with a reasonably stable economic and business environment; (iv) develop a balanced portfolio of short, medium and long-term opportunities; (v) seek innovative ways to unlock value; (vi) achieve and maintain a robust, well-funded business with the financial flexibility to fund high-impact exploration, appraisal and development programmes; and (vii) unlock oil and gas reserves still unexploited in old and marginal oil and gas fields through the use of new technology. **Argentina** On 5 February 2010, Zenith established Ingenieria Petrolera del Rio de la Plata S.r.l., a wholly-owned subsidiary of the Company, incorporated in Buenos Aires, Argentina. On 16 July 2010, Zenith incorporated a wholly-owned US subsidiary, Ingenieria Petrolera Patagonia Ltd., to act as the acquisition vehicle for two US-based companies controlling Central Patagonia S.r.l., the owner of two producing oil fields. The acquisitions completed on 22 July 2010. In Argentina, the Company has focused its development efforts on the two producing fields, Alberto and Don Ernesto. The two fields are located in the Patagonia region of Southern Argentina, and specifically in the San Jorge basin, Chubut Province, about 12 miles west of the city of Comodoro Rivadavia and 1,000 miles south of Buenos Aires. The Company's share of estimated total proved plus probable oil net reserves was assessed at 447,000 bbls of oil as of 31 August 2016 by Chapman Petroleum Engineering Ltd (the "**Competent Person**"). The Company will continue to focus on its refurbishment programme in respect of certain wells located at the properties acquired in 2010 with the intention of increasing production and cash flows.

Italy

On 18 November 2010, Zenith established Canoel Italia S.r.l., a wholly-owned subsidiary of the Company, incorporated in Italy. On 5 June 2013, the Company completed the acquisition of various interests in 13 Italian producing and exploration properties. The assets comprise six operated onshore gas production concessions, three non-operated onshore gas production concessions, an operated exploration permit, a non-operated exploration permit and two exploration permit applications.

On 1 October 2015, the Company acquired co-generation equipment and facilities from the owner of a 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 from the gas produced by the Masseria Vincelli 1 well which it sells directly into the national energy grid in Italy.

The Company's share of estimated total proved plus probable natural gas net reserves (relating to the Torrente Cigno, Misano Adriatico, Lucera and San Mauro concessions) were assessed at 16,594 Mmscf and condensate net reserves were assessed at 109 Mbbls as of as of 31 August 2016 by the Competent Person.

Azerbaijan

On 16 March 2016, the Company's wholly-owned subsidiary, Zenith Aran Oil Company Limited ("**Zenith Aran**"), entered into a Rehabilitation, Exploration, Development and Production Sharing Agreement ("**REDPSA**") with the State Oil Company of Azerbaijan Republic ("**SOCAR**") and SOCAR Oil Affiliate ("**SOA**"). Pursuant to the terms of the REDPSA, the Company and SOA have the exclusive right to conduct petroleum operations from three petroleum-producing onshore fields in Azerbaijan (the "**Azerbaijani Operations**"), through a newly incorporated operating company, Aran Oil Operating Company Limited ("**Aran Oil**"). On 24 June 2016, the President of the Republic of Azerbaijan signed the REDPSA into law, following approval and ratification by Parliament on 14 June 2016. The handover of the capital assets previously used in the petroleum operations at the Azerbaijani Operations, from the previous operating company to Aran Oil, officially completed on 11 August 2016.

The three fields which comprise the Azerbaijani Operations (Muradkhanli, Jafarli and Zardab) have a compounded acreage of 642 square kilometres. They produce approximately 295 barrels of crude oil per day at present, although they have produced much larger quantities previously (Source: SOCAR). Aran Oil, in which Zenith has an 80% interest, is the operator of the concession, with the remaining 20% interest being held by SOA. The licence (which is subject to exploitation and production conditions) has a duration of 25 years. A possible additional five year extension may be approved by SOCAR.

		The Company's share of estimated total proved plus probable oil net reserves (which it could be possible to produce during the relevant 25 year contract period) was assessed at 33,424,000 bbls of oil as of 31 August 2016 by the Competent Person. The Company intends to grow the current base of production in Azerbaijan through investments in technology, enhanced production techniques, significant infill development opportunities and future step-out exploration. The Company considers its operations in Azerbaijan to be a key strategic asset and it is committed to developing its interest in the concession.
B.4a	**Significant trends**	Significant recent trends affecting the Group and the industry in which the Company operates include the following: • The global recession has created new challenges for oil and gas companies, who are currently faced with several near-term threats to returns. Conversely, the long-term outlook and prospects for growth remains optimistic. The industry is therefore being pressured to develop strategic responses to the conflict between near-term pressures and long-term potential. • Some companies in the industry have avoided or addressed immediate financial crisis challenges, but some still face refinancing and cash flows insufficient to sustain debt service, along with ongoing investment in operations and growth. • Upstream input costs in the industry (including equipment, materials and services) represent up to 80% of total operating costs and have not fallen as rapidly as commodity prices. • It is becoming increasingly important for oil and gas companies to capture the value of technology and technology application. • Strong demand growth post-recovery from the financial crisis may lead to increasing environmental concerns, carbon regulation and energy security issues.

<table>
<tr>
<td>B.5</td>
<td>Group Structure</td>
<td>The Company is the parent company of the Group. The Subsidiaries of the Company are as follows (the Company does not have any other subsidiaries or investments in other companies):
<table>
<tr><th>Name</th><th>Country of incorporation</th><th>Proportion of ownership interest</th><th>Principal activity</th></tr>
<tr><td>Ingenieria Petrolera Patagonia Ltd.</td><td>Denver, Colorado, USA</td><td>100%</td><td>Sub-holding</td></tr>
<tr><td>Canoel Italia S.r.l.</td><td>Genova, Italy</td><td>98.64%(1)</td><td>Gas, electricity and condensate production</td></tr>
<tr><td>Petrolera Patagonia Corporation Inc. (“PPC”)</td><td>Denver, Colorado, USA</td><td>100%</td><td>Sub-holding</td></tr>
<tr><td>PP Holding Inc. (“PPH”)</td><td>Denver, Colorado, USA</td><td>100%</td><td>Sub-holding</td></tr>
<tr><td>Petrolera Patagonia S.r.l.</td><td>Argentina</td><td>100% (95% owned subsidiary of PPC and 5% held by PPH)</td><td>Oil production</td></tr>
<tr><td>Ingenieria Petrolera del Rio de la Plata S.r.l.</td><td>Argentina</td><td>100%</td><td>Oil services</td></tr>
<tr><td>Zenith Aran Oil Company Limited(2)</td><td>British Virgin Islands</td><td>100%</td><td>Oil production</td></tr>
<tr><td>Aran Oil Operating Company Limited(3)</td><td>British Virgin Islands</td><td>80%</td><td>Oil production</td></tr>
</table>
Notes:
(1) The holder of the remaining 1.36% in the capital of Canoel Italia S.r.l. is Luigi Regis Milano.
(2) Zenith Aran Oil Company Limited has registered a branch in Baku, Azerbaijan.
(3) Aran Oil Operating Company Limited has registered a branch in Baku, Azerbaijan.</td>
</tr>
<tr>
<td>B.6</td>
<td>Major Shareholders</td>
<td>Under Canadian law, any person or company that has beneficial ownership of, or control or direction over, whether direct or indirect, or a combination of beneficial ownership of, and control or direction over, whether direct or indirect, securities of an issuer carrying more than 10% of the voting rights attached to all the issuer’s outstanding voting securities, including securities (issued and unissued) that the person or company is the beneficial owner of, which are convertible into voting securities within 60 days following that date, or has a right or obligation permitting or requiring the person or company, whether or not on conditions, to acquire beneficial ownership of the security within 60 days, by a single transaction or a series of linked transactions, is required to notify their holdings publicly. As at 30 December 2016 (being the latest practicable date before publication of this Document), the Company is not aware of any Shareholders that have a notifiable interest under Canadian law.</td>
</tr>
</table>

		As at 30 December 2016 (being the latest practicable date before publication of this Document), the Company is not aware of any person or persons who, directly or indirectly, exercise or could exercise control over the Company.
B.7	**Selected historical key financial information**	The table below sets out summary audited consolidated statements of financial position as at 31 March 2014, 2015 and 2016, and for the unaudited six months ended 30 September 2016, together with the comparative period (30 September 2015).

Statement of Financial Position

	Unaudited 6 months ended		Audited financial year ended		
	30-Sep-15 CAD $'000	**30-Sep-16 CAD $'000**	**31-mar-14 CAD $'000**	**31-mar-15 CAD $'000**	**31-mar-16 CAD $'000**
ASSETS					
Non-current assets					
Property, Plant and Equipment	17,412	1,066,801	19,253	16,693	14,598
Other receivables	292	167	549	355	207
	17,705	1,066,968	19,802	17,048	14,805
Current Assets					
Other	1,530	2,217	1,894	1,262	1,354
Cash and cash equivalents	522	126	711	936	138
	2,052	2,343	2,605	2,198	1,492
TOTAL ASSETS	**19,757**	**1,069,311**	**22,407**	**19,246**	**16,297**
EQUITY AND LIABILITIES					
Equity attributable to equity holders for the parent					
Total equity	**4,176**	**607,305**	**5,575**	**4,289**	**(2,278)**
Current Liabilities					
Trade and other payables	2,315	4,033	2,474	2,235	3,266
Oil share agreement	1,061	1,039	876	1,005	1,027
Azerbaijan commitments	–	502	–	–	–
Debt	2,803	2,115	3,529	2,367	3,907
Total current liabilities	**6,179**	**7,689**	**6,879**	**5,607**	**8,200**
Non current liabilities					
Debt	1,488	3,552	378	1,174	1,595
Decommissioning provision	5,516	9,793	7,277	5,779	7,897
Azerbaijan commitments	–	287,044	–	–	–
Deferred taxation	2,398	153,928	2,298	2,397	883
Total non current liabilities	**9,402**	**454,317**	**9,953**	**9,350**	**10,375**
TOTAL EQUITY AND LIABILITIES	**19,757**	**1,069,311**	**22,407**	**19,246**	**16,297**

The table below sets out the audited consolidated Statement of Comprehensive Income for the years ending 31 March 2014, 2015 and 2016 and for the unaudited six months ended 30 September 2016, together with the comparative period (30 September 2015).

Consolidated Statement of Comprehensive Income

Continuing operations	Unaudited 6 months ended 30-Sep-15 CAD $'000	Unaudited 6 months ended 30-Sep-16 CAD $'000	Audited financial year ended 31 March 2014 CAD $'000	Audited financial year ended 31 March 2015 CAD $'000	Audited financial year ended 31 March 2016 CAD $'000
Revenue	1,424	1,060	3,688	4,439	1,960
Cost of Sales	(1,060)	(989)	(7,400)	(2,481)	(2,365)
Gross Profit/ (Loss)	364	71	(3,712)	1,958	(405)
Administrative expenses	(1,341)	(1,796)	(2,862)	(2,949)	(2,449)
Gain (impairment) on business combination	–	771,189	12,193	–	(5,025)
Operating Profit/ (Loss)	(977)	769,464	5,619	(991)	(7,879)
Other	(240)	(151)	(742)	(1,285)	(1,310)
Profit/(loss) for the year before taxation	(1,217)	769,313	4,877	(2,276)	(9,189)
Taxation	–	(153,044)	1,442	(99)	1,514
Profit/(loss) for the year attributable to owners of the parent	(1,217)	616,269	6,319	(2,375)	(7,675)
Other Comprehensive Income	784	(8,195)	668	(1,598)	(142)
Total Comprehensive Income for the year attributable to owners of the parent	(433)	608,074	6,987	(3,973)	(7,817)
Earnings per share (CAD)					
Basic	(0.04)	10.39	0.72	(0.11)	(0.23)
Diluted	(0.04)	6.23	0.72	(0.11)	(0.23)

The table below sets out extracts from the audited consolidated Statement of cash flows of the Group for the years ending 31 March 2014, 2015 and 2016 and for the unaudited six months ended 30 September 2016, together with the comparative period (30 September 2015).

Consolidated and combined statements of cash flows

	Unaudited 6 months ended		Audited financial year ended		
	30-Sep-15	**30-Sep-16**	**31-mar-14**	**31-mar-15**	**31-mar-16**
	CAD $'000	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
Net cash flows from operating activities	**(1,307)**	**(1,535)**	**(1,803)**	**(634)**	**(2,474)**
Net cash flows from investing activities	**20**	**(17)**	**2,076**	**(1,017)**	**(155)**
Net cash flows from financing activities	**860**	**1,543**	**130**	**1,903**	**1,977**
Net (decrease)/ increase in cash	(427)	(9)	403	252	(652)
Foreign exchange effect on cash held in foreign currencies	13	(3)	(38)	(27)	(146)
Cash and cash equivalent at end of year	**522**	**126**	**711**	**936**	**138**

The summary below presents certain significant changes to the Group's audited financial condition and operating results during the years ending 31 March 2014, 2015 and 2016, and for the unaudited six months ended 30 September 2016, together with the comparative period (30 September 2015).

Financial Position

The non-current asset base decreased in 2015 in comparison to 2014 as a result of depreciation, changes to the decommissioning provision and foreign exchange movements and the fall in 2016 is due to the impairment of the Italian assets. Other receivables relate to a small long term prepayment relating to insurance for the Italian assets.

The most important change in the financial position for the 6 months ended 30 September 2016 is that on 11 of August 2016 the process of handover of the technical assets of the three oil fields, Muradkhanli, Jafarli and Zardab, in Azerbaijan was completed, and the Company started crude oil production of approximately 275 barrels of oil per day in Azerbaijan under Zenith's name. This resulted in a bargain net purchase of CAD $618 million being CAD $1,052 million of D&P assets, less future payments of CAD $2 million for compensatory oil, CAD $285 million of capex commitments, CAD $2 million of decommissioning expenses, a positive foreign currency translation of CAD $8 million and a deferred tax liability of CAD $153 million.

The valuations of the Azerbaijani asset and of the liabilities have been based on the net present value of future cash flows included in the evaluation report prepared for the Company by Chapman Petroleum Engineering Ltd. ("Chapman Petroleum") relating the oil and gas reserves owned by the Company as of 31 March 2016 and published on 15 June 2016 (the "March Evaluation Report").

Movements in debt have occurred over the periods in relation to convertible loans and their expected maturity dates. Changes to their terms have impacted their classification as either current or non-current. The oil share agreement relates to obligations that fall due as a result of the acquisition of the Argentinian assets. No further amounts are owed or accruing under the terms of this agreement.

The key balance in non-current liabilities is the decommissioning provision which is reassessed annually for both inflation and the time value of money resulting in annual movements which can be material. In 2015 this balance was restated causing a prior period adjustment. This arose due to an error in using the spot rate rather than a credit adjusted rate in the calculation of the decommissioning provision. The fall in 2015 is due to a change in the estimate of the provision and foreign exchange movements and the same reasoning is the cause of the increase in the balance in 2016.

The other balances include deferred tax of CAD $883k which has arisen on the Italian transaction and loans (convertible and standard) and annual movements are principally a result of movements in the decommissioning provision.

Cash Flows

Zenith has been funding its cash requirements from equity and debt sources as well as seeking value from deals undertaken which will allow for improved cash generation through quick, effective solutions. Zenith has raised circa CAD $3.4 million from investors in 2014, 2015 and 2016 combined. In addition successful management of debt (e.g. renegotiation of loans) and finance funding has allowed Zenith to fund its activities despite being in a net current liability position for each of the three years presented. Investing activities were positive in 2014 as a result of the receipt of CAD $1.8m following the Italian acquisition.

In 2015 operating cash outflows fell as a result of higher oil prices and a large equity raise of CAD 2.14 million helped increase cash balances.

In the year ended 31 March 2016, total cash decreased to CAD $138k, due to the falling oil and gas prices, production problems in Argentina and Italy and increased expenditure in respect of the potential listing. These outflows resulted in further sources of equity and debt funding being required.

Cash outflows from operating activities in the six months ending 30 September 2016 were higher than the previous period primarily due to the expenses to start production in Azerbaijan and production ceasing in Argentina as a result of the collapse of a third party owned storage unit.

Revenues

The following table shows the revenue generated by region and by production.

Revenues (net of royalties)

Revenues	Unaudited 6 months ended 30 September 2015 CAD $'000	2016 CAD $'000	Audited financial year ended 31 March 2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Oil (Argentina) net of royalties	1,092	70	2,786	3,362	1,169
Oil (Azerbaijan)	–	659	–	–	–
Gas (Italy)	292	(7)	831	989	466
Condensate (Italy)	40	55	71	88	63
Electricity (Italy)	n.a.	283	n.a	n.a.	262
TOTAL	1,424	1,060	3,688	4,439	1,960

Oil

Oil revenues increased between 2014 and 2015 due to improvements in production and an increase in the average oil price achieved from US $63.92 in FY 2014 to US $74.30 in FY 2015.The decline in revenues in FY 2016 is a result of lost production due to the collapse of the storage tank (state owned) used by the company, and the subsequent temporary interruption of production in Argentina. Production is expected to recommence in March 2017.

On 11 of August 2016 the process of the handover of the technical assets of the three oil fields, Muradkhanli, Jafarli and Zardab, in Azerbaijan was completed, and the Company started crude oil production of approximately 275 barrels of oil per day in Azerbaijan under Zenith's name, with gross revenues of $659k for the quarter up to 30 September 2016.

Gas

Gas revenue has increased as a result of FY 2015 being the first full year of the Italian operations being consolidated into the Group's results. Production increases did not feed directly through to revenue as the price per mcf received for natural gas was lower in the year ended 31 March 2015 (($/mcf 6.98) compared to the year ended 31 March 2014 ($/mcf 8.01).

The decrease in gas sales volumes in the year 2016 was due to a temporary interruption of production at the Torrente Cigno concession for required maintenance during April 2015, a malfunctioning compressor in the Lucera concession which persisted into the subsequent periods and reduced production by 50%, a temporary interruption in production from the Sant'Andrea well in October 2015 following the expiration of a sales contract and a temporary interruption in production from the Petrilli well in November 2015 due to high pipeline pressure which is expected to be remedied in January 2017.

Condensate revenue increased as a result of FY 2015 being the first full year of condensate production.

The decrease in condensate sales volumes between March 2015 and March 2016 was due to the stoppages in October and November 2015 and the temporary interruption of production for required maintenance during April 2015 at the

Torrente Cigno concession. From 1 October 2015, the Italian operations now sell electricity directly into the national grid, using the gas produced form the Torrente Cigno concession.

During the 6 months ended 30 September 2016 the Company achieved revenues from electricity of CAD$283k, showing the positive benefits for the acquisition of the co-generation unit.

Costs

Overall production costs, excluding forced shut-ins, decreased (Argentina 13.7%; Italy 40%) over the period shown due to operational efficiencies. However these efficiencies have been offset by lower sales prices and shut-ins.

Office and Administrative costs have increased as a result of the Italian operations coming on board with 2015 seeing the largest rise in these costs as this was the first full year of ownership of the Italian operations. Salaries have increased due to the increase in employees following the Italian acquisition and also as a result of an increase in Director bonuses. Administrative expenses, net of foreign exchange, increased in 2016 as a result of expenses relating to the Azerbaijan acquisition, costs relating to the proposed admission to the Official List of the FCA and to trading on the London Stock Exchange's main market for listed securities and an increase in fundraising activities.

The expenses in the 6 months ended 30 September 2016, compared to the comparative period ended 30 September 2015, increased as a result of increased costs due to the Azerbaijan acquisition, costs relating to the proposed admission to the Official List of the FCA and to trading on the London Stock Exchange's main market for listed securities and fundraising activities.

PERIOD SUBSEQUENT TO THE PERIOD COVERED BY THE FINANCIAL INFORMATION

In the subsequent period starting from 1 October 2016 to the date of this Document, production has remained steady in Italy and Azerbaijan, but has not yet restarted in Argentina. The financial position of the Company has been affected by the costs of the pre-IIPO fundraising.

Save as disclosed above, there have not been any other significant changes to the issuer's financial condition and operating results in the period covered by, and subsequent to, the period covered by the financial information.

Competent Persons Report

The Competent Persons Report prepared by Chapman Petroleum relating the oil and gas reserves owned by the Company as of 31 August 2016 (the "CPR") includes a change in the valuation of the Azeri asset which has arisen due to amendments to the development plan and the postponement of drilling. These changes have occurred due to delays in handover (completed 11 August 2016) and Admission of the Company to the London Stock Exchange.

The revised valuation of the assets and liabilities acquired along with the revised NPV of the Azeri asset can be found below:

Fair Value of Assets and Liabilities acquired (CAD$'000)	March Evaluation Report (31 March)	CPR (31 August)	Differences
D&P assets	1,052,765	990,602	(62,163)
Compensatory Oil*	(1,997)	(1,833)	164
Capital Costs*	(285,549)	(266,901)	18,648
Foreign Currency Translation	7,913	7,913	–
Decommissioning Obligations	(1,943)	(1,790)	153
Gain on business acquisition	**771,189**	**727,991**	**(43,198)**
Taxation	(153,044)	(144,374)	8,670
Net NPV of the assets	**618,145**	**583,617**	**(34,528)**

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

B.8 **Selected key pro forma financial information**

This has been prepared for illustrative purposes only. Because of its nature, the pro forma financial information below addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results.

Unaudited pro-forma statement of net assets

	Company net assets as of 30 September 16 Note 1 CAD $000's	Adjust-ment Note 2 CAD $000's	Adjust-ment Note 3 CAD $000's	Adjust-ment Note 4 CAD $000's	Unaudited pro-forma net assets of the Company CAD $000's
ASSETS					
Non-current assets					
Property and equipment	1,066,801	–	–	–	1,066,801
Other receivables	167	–	–	–	167
	1,066,968	–	–	–	1,066,968
Current Assets					
Inventory	317	–	–	–	317
Trade and other receivables	1,547	–	–	–	1,547
Financial Instruments	353	–	–	–	353
Cash and cash equivalents	126	329	–	2,404	2,859
	2,343	329	–	2,404	5,076
TOTAL ASSETS	**1,069,311**	**329**	**–**	**2,404**	**1,072,044**

	Company net assets as of 30 September 16 Note 1 CAD $000's	Adjust-ment Note 2 CAD $000's	Adjust-ment Note 3 CAD $000's	Adjust-ment Note 4 CAD $000's	Unaudited pro-forma net assets of the Company CAD $000's
LIABILITIES					
Non-current liabilities					
Loans	2,665	–	–	–	2,665
Convertible loans	887	–	–	–	887
Decommissioning provision	9,793	–	–	–	9,793
Deferred Consideration payable	287,044	–	–	–	287,044
Deferred taxation	153,928	–	–	–	153,928
Total non-current liabilities	**454,317**	**–**	**–**	**–**	**454,317**
Current liabilities					
Trade and other payables	4,033	–	525	(525)	4,033
Oil share agreement	1,039	–	–	–	1,039
Loans	1,503	–	–	(941)	562
Deferred Consideration payable	502	–	–	–	502
Convertible Loans	612	–	–	–	612
Total current liabilities	7,689	–	525	(1,466)	6,748
NET ASSETS	**607,305**	**329**	**(525)**	**3,870**	**610,979**

Notes:

1. The financial information relating to the Company has been extracted without adjustment from the unaudited interim financial information set out in Part 16: "*Historical Financial Information*" of this Document.
2. The CAD$329k (£197k) adjustment represents the placement of 2,745,062 shares at CAD$0.12 per share that was completed by the Company on 7 November 2016. This fund raising resulted in a cash increase of CAD$329k (£197k).
3. The CAD$525k (£317k) adjustment represents the costs incurred in connection with the admission and the placing.
4. The CAD$3,870k (£2,333k) adjustment represents the placing of 33,322,143 shares at £0.07 per share that will take place concurrently with the admission to the London Stock Exchange. This fund raising will result in a cash increase of CAD$2,404k (£1,449k), net of costs incurred in connection with the admission and the placing of CAD$525k (£317k) and partial loan repayment of CAD$941k (US$700k). Concurrently with the placing and admission, Alan Hume will be issued 668,571 common shares in satisfaction of his fees in respect of work carried out for the Company prior to admission.
5. The Pro Forma Financial Information excludes an unaudited pro forma statement of results on the basis that the adjustment above has no effect on the results for the period ended 30 September 2016.
6. The Pro Forma Financial Information does not reflect any changes in the trading position of the Company or any other changes arising from other transactions, since 30 September 2016. There are no other significant changes to the issuer's financial condition and operating results, other than those disclosed.
7. The Pro Forma Financial Information does not constitute financial statements.

B.9	**Profit forecast or estimates**	Not applicable; no profit forecasts or estimates are made.
B.10	**Qualified audit report**	Not applicable; the audit reports on the historical financial information for the years ended 31 March 2016, 2015 and 2014 and for the unaudited six months ended 30 September 2016 do not contain any qualifications.
B.11	**Working capital explanation**	Not applicable; the Company is of the opinion that, taking into account the Net Proceeds receivable by the Company, the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of this Document.

SECTION C — SECURITIES		
C.1	**Description of the type and the class of the securities being offered**	The securities which will be subject to an application for admission to the Official List of the FCA and to trading on the London Stock Exchange's main market for listed securities are common shares of the Company of no par value, which are registered with ISIN number CA98936C1068 and SEDOL number BYNXNZ9.
C.2	**Currency of the securities issue**	The Common Shares have no par value. The Placing Price is payable in Pounds Sterling.
C.3	**Issued share capital**	The Company currently has 64,574,153 Common Shares in issue, all fully paid. The Common Shares have no par value. The Directors are authorised to issue an unlimited number of Common Shares. There are no provisions in the Articles that require new Common Shares to be issued on a pre-emptive basis to existing Shareholders and there are no statutory pre-emption rights.
C.4	**Rights attached to the securities**	The Common Shares rank equally for voting purposes. On a show of hands, each Shareholder has one vote and on a poll each Shareholder has one vote per Common Share held.
C.5	**Restrictions on transferability**	Not applicable. All Common Shares, including the Placing Shares, are freely transferable, subject to Canadian securities laws.
C.6	**Application for admission to trading on a regulated market**	Application has been made for the Common Shares to be admitted to the Official List of the FCA and to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that unconditional dealings will commence at 8.00 a.m. on 11 January 2017. Application will also be made to list the Placing Shares and the Manager Shares on the TSXV, however the Placing Shares and the Manager Shares may not be resold in Canada or to a resident of Canada for a period of four months and one day from Admission.
C.7	**Dividend policy**	The Company has never declared or paid any dividends on the Common Shares. The Company currently intends to retain future earnings, if any, for future operations, expansion and debt repayment, if necessary. Therefore, at present, there is no intention to pay dividends and a dividend may never be paid. Any decision to declare and pay dividends will be made at the discretion of the Board of Directors.

SECTION D — RISKS		
D.1	**Key information on the key risks that are specific to the issuer or its industry**	International operations are subject to political, economic and other uncertainties, including, among others, risk of war, risk of terrorist activities, border disputes, expropriation, renegotiations or modification of existing contracts, restrictions on repatriation of funds, import, export and transportation regulations and tariffs, taxation policies including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes, sudden changes in laws, government control over domestic oil and gas pricing, and other uncertainties arising out of foreign government sovereignty over the Company's operations. Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could cause substantial damage to oil and natural gas wells, production facilities, other property or the environment, or personal injury. Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. There is also the risk that implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Company's costs, any of which may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The Company is subject to significant environmental regulations in respect of its operational activities in all jurisdictions and seeks to conduct its operations in an environmentally responsible manner and to maintain the productivity goals achieved. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Should the Company be unable to fully fund the cost of remedying an environmental problem, the Company might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy. The Company's business can involve significant capital expenditure and it may require additional capital to fund the acquisition and development of additional value enhancing exploration, development and production opportunities should they be identified and arise in the future. There can be no assurance that the Company will be able to obtain debt financing or additional equity financing in the amounts required for expenditure beyond its current capital expenditure plans, or,

		if debt or equity financing is available, that it will be on terms acceptable to the Company. There is a risk that future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit. Completion of a well does not assure a profit or recovery of costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set out in this Document are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results.
D.3	**Key information on the key risks that are specific to the securities**	**Risks relating to the Common Shares** Application has been made for the Common Shares to be admitted to the standard segment of the Official List. A Standard Listing affords Shareholders and investors in the Company a lower level of regulatory protection than that afforded to investors in companies whose securities are admitted to the premium segment of the Official List, which are subject to additional obligations under the Listing Rules. If the Company offers its Common Shares as consideration in making an acquisition or issues shares to raise funds to pay cash consideration, depending on the number of Common Shares offered and the value of such Common Shares at the time, the issuance of such Common Shares could materially reduce the percentage ownership of the holders of Common Shares and also dilute the value of their holding. Upon Admission, the Company's shares will be listed on two separate stock markets. Investors seeking to take advantage of price differences between such markets may create unexpected volatility in share price. Additionally, investors may not be able to easily move shares for trading between such markets. The Company is incorporated in Canada and is subject to Canadian law. The rights and obligations of holders of Common Shares may be different from those of the home countries of international investors. Non-Canadian residents may also find it more difficult and costly to exercise shareholder rights.

		The issuance of additional Common Shares in connection with future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings and their voting interests. The exercise of Options or Warrants or conversion of Convertible Loan Notes will result in a dilution of Shareholders' interests if the price per Common Share exceeds the subscription/conversion price payable at the relevant time.

SECTION E — OFFER		
E.1	**Total net proceeds/expenses**	The estimated Net Proceeds are approximately £2,015,922. The total expenses incurred (or to be incurred) by the Company in connection with Admission and the Placing are approximately £316,628. No expenses will be charged to the investors.
E.2a	**Reasons for the offer and use of proceeds**	The Company's intention is to use the Net Proceeds of the Placing as follows (in order of priority): **Use** — **Amount (GBP)** Repayment to Jiu Feng Investment Hong Kong Limited — 567,070 Argentina workover programmes — 38,885 Italy workover programmes — 128,025 Azerbaijan – facility and systems upgrades — 40,505 Azerbaijan – workover programmes — 60,757 Working capital — 1,180,680 **Total** — 2,015,922 The payment of £567,070 (USD $700,000) to Jiu Feng Investment Hong Kong Limited relates to the partial repayment of a USD $2,050,000 loan facility made to the Company. It is intended that the GBP £38,885 (USD $48,000) attributed above to workover programmes in Argentina will be spent on three specific workover projects at the Company's Argentinian properties. The Company intends to spend the GBP £128,025 (€150,000) attributed above to workover programmes in Italy on development plans at its San Teodoro gas field concession. Facility and systems upgrades envisaged in Azerbaijan (to which GBP £40,505 (USD $50,000) is attributed above) relate to the intended purchase by the Company of two submersible pumps for use at its oil fields in Azerbaijan. The Company also intends to allocate GBP £60,757 (USD $75,000) of the Net Proceeds to its workover programme in Azerbaijan (towards the costs associated with three of the 10 wells to be worked over in Azerbaijan in 2017).

E.3	**Terms and conditions of the offer**	The Placing comprises a total of 33,322,143 Placing Shares to be issued by the Company at a Placing Price of £0.07 per new Common Share, to raise gross proceeds of approximately £2,332,550 (before expenses). The estimated Net Proceeds of the Placing amount to approximately £2,015,922. Each prospective investor has been offered Placing Shares of no par value at the Placing Price and the Placing Shares have been conditionally subscribed for by investors. The Directors have received irrevocable undertakings from investors to subscribe for 33,322,143 Common Shares in aggregate at the Placing Price. The undertakings are conditional only on Admission. The Placing is not underwritten. The Placing Shares will be issued credited as fully paid and will, on Admission, rank *pari passu* in all respects with all other Common Shares including the right to receive all dividends or other distributions declared, made or paid after Admission. The Placing Shares to be issued by the Company pursuant to the Placing will represent approximately 33.81% of the Enlarged Common Shares in Issue. On Admission the Company will have a market capitalisation (at the Placing Price) of approximately £6,899,541 assuming 33,322,143 Placing Shares are issued at the Placing Price. The Company expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Placing. Following Admission, the Net Proceeds of the Placing will be placed on deposit with the Company's bankers.
E.4	**Material interests**	Not applicable; there are no interests, known to the Company, that are material to the issue/offer or which are conflicting interests.
E.5	**Selling Shareholders/ Lock-up agreements**	Not applicable; no person or entity is offering to sell the relevant securities. There are no lock-up arrangements.
E.6	**Dilution**	Under the Placing, 33,322,143 new Common Shares have been conditionally subscribed for by investors at the Placing Price, representing 33.81% of the Enlarged Common Shares in issue. Shareholdings immediately prior to Admission will be diluted by approximately 34.49% as a result of the Placing Shares issued pursuant to the Placing and the issue of the Manager Shares on Admission.
E.7	**Expenses charged to investors**	Not applicable; no expenses will be charged to the investors.

PART 2

RISK FACTORS

The Group's business, financial condition or results of operations could be materially and adversely affected by the risks described below. In such cases, the market price of the Common Shares may decline due to any of these risks and investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Group. The Directors consider the following risks to be the material risks for potential investors in the Company, but the risks listed do not necessarily comprise all those associated with an investment in the Company.

Any investment in the Common Shares is speculative and subject to a high degree of risk. Prior to investing in the Common Shares, prospective investors should carefully consider the risks and uncertainties associated with any investment in the Common Shares, the Group's business and the industry in which it operates, together with all other information contained in this Document, including, in particular, the risk factors described below. Following the occurrence of any such event, the value of Common Shares could decline and investors could lose all or part of their investment. Prospective investors should note that the risks relating to the Group, its industry and the Common Shares summarised in Part 1: "Summary" of this Document are the risks that the Company believes to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Common Shares. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in Part 1: "Summary" of this Document but also, among other things, the risks and uncertainties described below.

The following factors do not purport to be a complete list or explanation of all the risk factors involved in investing in the Common Shares and should be used as guidance only. Additional risks and uncertainties that are not currently known to the Group, or that it currently deems immaterial, may individually or cumulatively also have an adverse effect on the Group's business, results of operations, financial condition and prospects. If this occurs, the price of the Common Shares may decline and investors could lose all or part of their investment. Prospective investors should also consider carefully whether an investment in the Common Shares is suitable for them in light of the information in this Document and their personal circumstances and, if they are in any doubt, should consult with an independent financial adviser authorised in their jurisdiction who specialises in advising on the acquisition of shares.

RISKS RELATING TO THE GROUP'S FOREIGN OPERATIONS

International operations are subject to political, economic and other uncertainties, including, among others, risk of war, risk of terrorist activities, border disputes, expropriation, renegotiations or modification of existing contracts, restrictions on repatriation of funds, import, export and transportation regulations and tariffs, taxation policies including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes, sudden changes in laws, government control over domestic oil and gas pricing, and other uncertainties arising out of foreign government sovereignty over the Company's international operations. With respect to taxation matters, there is the risk that the governments and other regulatory agencies in the foreign jurisdictions in which the Company operates and intends to operate in future may make sudden changes in laws relating to royalties or taxation or impose higher tax rates which may affect the Company's operations in a significant manner. These governments and agencies may not allow certain deductions in calculating tax payable that the Company believes should be deductible under applicable laws or may have differing views as to values of transferred properties. This can result in significantly higher tax payable than initially anticipated by the Company. In many circumstances, re-adjustments to tax payable imposed by these governments and agencies may occur years after the initial tax amounts were paid by the Company, which can result in the Company having to pay significant penalties and fines. Furthermore, in the event of a dispute arising from international operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. The Company operates in such a manner as to mitigate its exposure to these risks; however, there can be no assurance that the Company will be successful in protecting itself from the impact of all these risks.

Foreign oil and gas operations involve substantial costs and are subject to certain risks owing to the underdeveloped nature of the oil and gas industry in such countries. The oil and gas industry in various countries is not as developed as the oil and gas industry in Canada and the United States. As a result, drilling and development operations may take longer to complete and may cost more than similar operations in Canada and the United States. The availability of technical expertise, specific equipment and supplies is more limited in various countries than in Canada and the United States. Such factors may subject oil and gas operations in other countries to economic and operating risks not experienced in Canada and the United States.

Risks Relating to the Group's Operations in Azerbaijan

Investors in emerging markets such as Azerbaijan should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies, such as Azerbaijan's, are subject to rapid change and that the information set out in this Document may become outdated relatively quickly.

The disruptions recently experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

Rehabilitation and production programme

The terms of the REDPSA provide that it becomes effective on SOCAR delivering to Zenith Aran and SOA evidence of (i) the enactment by the legislature of legislation approving the REDPSA; (ii) the President's signing of the legislation; and (iii) the publication of the legislation in an official periodical print, provided however that the effective date cannot not occur until the following conditions precedent have been satisfied:

1. SOCAR, SOA and Zenith Aran have completed the necessary steps specified in the legislation of the Republic of Azerbaijan to transfer the capital assets currently used in respect of the petroleum operations at the Azerbaijani Operations from the current operating company to a new operating company formed by Zenith Aran (Aran Oil) and SOA;

2. the board of directors of each of Zenith Aran, SOCAR and the SOA approving the entering into of the REDPSA;

3. delivery by Zenith Aran to SOCAR of an ultimate parent company guarantee in the form attached to the REDPSA, signed by the ultimate corporate parent company of Zenith Aran, being the Company; and

4. delivery to Zenith Aran of a "Government Guarantee", in the form attached to the REDPSA.

The REDPSA became effective on 11 August 2016 (the "**Effective Date**").

Within 150 days of the Effective Date, Zenith Aran and SOA are required to prepare and submit a rehabilitation and production programme to achieve an average daily crude oil production from the contract rehabilitation area of 1.5 times the average daily production rate in 2015 by no later than two years following SOCAR's approval of the programme. The rehabilitation and production programme is currently being finalised by the Company's technical team and the Directors anticipate that Zenith Aran and SOA will submit the programme to SOCAR imminently (in any event within the 150 day timeframe).

SOCAR has 60 days to approve the rehabilitation and production programme and is required, pursuant to the terms of the REDPSA, not to unreasonably withhold its approval. If SOCAR requests changes to the rehabilitation and production programme, the parties must discuss a revised rehabilitation and production programme. If the rehabilitation and production programme has not been approved by SOCAR within 60 days of the commencement of such discussions, Zenith Aran and SOA can elect to have the matter referred to an arbitrator to determine, through the arbitration procedure set out in the REDPSA, whether SOCAR's approval of the rehabilitation and production programme has been unreasonably withheld. In the event that the arbitrator's decision is that SOCAR reasonably withheld its approval of the rehabilitation and production programme, Zenith Aran and SOA will have the right to either (i) accept the changes proposed by SOCAR; or (ii) terminate the REDPSA. In the event that Zenith Oil and SOA do not submit a rehabilitation and production programme within the specified time limit or do not achieve the minimum average daily crude oil production rate within two years following SOCAR's approval of the programme, they will be in material breach of the REDPSA and SOCAR will have a right to terminate the provisions of the REDPSA relating to the contract rehabilitation area. Based on the Company's review of the technical records for the contract rehabilitation area and site visits conducted by Zenith Aran, the Directors are confident that they will be able to present a rehabilitation and production programme that is approved by SOCAR. Further, based on the Company's review of the Azerbaijani Operations and the average daily crude oil production from the contract rehabilitation area in 2015 (which the Company considers to be low), the Directors consider the risk that Aran Oil Operating Company Limited, the "Joint Operating Company" formed by Zenith Aran and SOA, will not achieve the minimum production required by the RESPSA to be low.

Minimum exploration work programme

Pursuant to the terms of the REDPSA, within the four year period commencing on the Effective Date, being 11 August 2016, Zenith Aran and SOA will be required to carry out a minimum exploration work programme including the following work:

1. to carry out an upper section site investigation survey to ensure a safe and environmentally sound base for drilling, and to shoot, process and interpret two-dimensional seismic or a minimum of sixty square kilometres of three-dimensional seismic (this will be decided by the Company at the relevant time), in the specified exploration area; and

2. to drill a well to a depth of five thousand metres from the ground surface, or to the depth of 50 metres below the top of the Upper Cretaceous formation, whichever occurs first, and evaluate the drilled well using an appropriate logging and testing programme.

If Zenith Aran and SOA fail to perform any of the above obligations they will be in material breach of the REDPSA and SOCAR will have a right to terminate the provisions of the REDPSA relating to the contract exploration area. The REDPSA does not contain any milestones in respect of the minimum exploration work programme. Based on the Company's review of the Azerbaijani Operations, the Directors consider the risk that Aran Oil Operating Company Limited, the "Joint Operating Company" formed by Zenith Aran and SOA, will not achieve the minimum exploration work programme to be low. Aran Oil Operating Company Limited will fund the minimum exploration work programme using its accumulated cash flows from the Azerbaijani Operations.

Azerbaijan could be affected by regional tensions and unrest

Like other countries in the region, Azerbaijan, which is bordered by Russia, Georgia, Armenia, Turkey and Iran, could be affected by political unrest both within its borders and in surrounding countries, and any resulting military action may have an effect on the world economy and political stability of other countries.

There have been a number of political and military disputes in the region. For example, in August 2008, the conflict in the Tskhinvali Region/South Ossetia of Georgia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border. In the days that followed the initial outbreak of hostilities, Georgia declared a state of war as Russian forces launched bombing raids deep into Georgia, targeted and destroyed Georgian infrastructure, blockaded part of the Georgian coast, took control of Tskhinvali and the Abkhazia region and landed marines on the Abkhaz coast. After five days of heavy fighting, the Georgian forces were defeated, enabling the Russians to enter Georgia uncontested and occupy the cities of Poti, Gori, Senaki and Zugdidi. During this period, transit through the pipelines crossing Georgia was temporarily stopped, which cut off one of the Company's three principal export routes. Future such occurrences whether in Georgia, in one of the Republic's other neighbours or in the region generally could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Azerbaijan and other countries in the region could be affected by terrorism and by military or other action taken against sponsors of terrorism in the region, which could, in turn, have a significant adverse effect on Azerbaijan's economy.

The implementation of further market-based economic reforms in Azerbaijan involves risks

The need for substantial investment in many enterprises has driven the Azerbaijani Government's privatisation programme, although the Company is not aware of any plans to privatise SOCAR or any of its subsidiaries, joint ventures or associates. The programme has excluded certain enterprises deemed strategically significant by the Azerbaijani Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain industrial producers, financial institutions and service companies.

However, there remains a need for substantial investment in many sectors of Azerbaijan's economy and there are as in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the considerable amount of cash transactions in the economy and the significant size of the shadow economy (including under reporting of income) adversely affect the implementation of reforms and hamper the efficient collection of taxes.

Official data in Azerbaijan may be unreliable

Official statistics and other data published by the Azerbaijani Government, its Central Bank, and its agencies may be substantially less complete or researched and, as a result of this and other factors, be less reliable than those published by comparable bodies in other jurisdictions. Accordingly, the Company cannot assure prospective investors that the official sources from which the Company has drawn some of the information set out herein are reliable or that the information is complete. In addition, the Company, to an extent, relies on such official sources in conducting and planning its business. Any discussion of matters relating to Azerbaijan herein may, therefore, be subject to uncertainty due to concerns about the reliability or completeness of available official and public information.

There are risks associated with the underdevelopment and evolution of the legislative, tax and regulatory framework in Azerbaijan

Since the break-up of the Soviet Union, the Azerbaijani Government has rapidly introduced laws, regulations and legal structures to foster the development of a market system and integration with the world economy. The speed with which legislation has been drafted has resulted in legislation that in many instances has left key issues unresolved, is frequently contradictory, inadequate or incomplete, and is susceptible to conflicting interpretations and overlapping jurisdictions between government bodies and has substantive gaps. In certain cases, legislation or implementing regulations may be unpublished or unavailable. Moreover, the absence of definitive interpretations of many of the provisions of these new laws, and the absence of a tradition in Azerbaijan of a judiciary that is insulated from current political or other considerations, can make the application of laws uncertain.

The commitment of Azerbaijani Government officials and agencies to comply with legal obligations and negotiated agreements has not always been reliable, and there is a tendency for the authorities to take arbitrary action. Legal redress for breach or unlawful action may not be readily available, or may be subject to significant delays. These factors, which are not uncommon to transitional legal systems, make an investment subject to higher risks and greater uncertainties than would be the case in more developed legal systems.

Foreign judgments and arbitral awards may not be enforceable in Azerbaijan

In the absence of reciprocity of enforcement of court judgments with foreign countries (including by virtue of bilateral treaties, of which very few are in force), Azerbaijani courts are unlikely to enforce a judgment of a court established in a country other than Azerbaijan, invoking statutory grounds for setting aside foreign judgments by asserting, for example, that the matter is subject to the exclusive jurisdiction of Azerbaijani courts or the courts of the country where the foreign or non-Azerbaijani judicial decision was adopted do not enforce the judicial decisions of Azerbaijani courts on a reciprocal basis. Although

Azerbaijan is a signatory to certain conventions on the recognition and enforcement of foreign arbitral awards, the enforcement of such awards in local courts remains largely untested. Azerbaijani courts can be arbitrary in their decisions and the possibility cannot be excluded that judges may misapply Azerbaijani laws (including, inter alia, those concerning grounds for declining enforcement).

Risks Relating to the Group's Operations in Argentina

Argentina has a different legal system from the Canadian system. This may result in risks such as: (i) effective legal redress in the courts of such jurisdiction, whether in respect of a breach of law or regulation, or, in an ownership dispute, being difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders or resolutions; or (v) relative inexperience of the judiciary and courts in such matters.

In addition, the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for businesses. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance the joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities and the effectiveness of an enforcement of such arrangements in Argentina cannot be assured. As a result of the local infrastructure present in Argentina, the land titles systems are not developed to the extent found in other nations. Although the Company believes that it has good title to its oil and gas properties, there is little it can do to mitigate this risk.

RISKS RELATING TO THE COMPANY AND ITS OPERATIONS

Activities in the oil and gas sectors can be dangerous, posing health, safety and environmental risks

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property as well as the environment or personal injury. In particular, the Group may produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Group. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time.

Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. There is also the risk that implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Company's costs, any of which may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, the Company will require licenses from various governmental authorities. There can be no assurance that the Company will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Environmental Concerns

The Company is subject to significant environmental regulations in respect of its operational activities in all jurisdictions and seeks to conduct its operations in an environmentally responsible manner and to maintain the productivity goals achieved. All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Should the Company be unable to fully fund the cost of remedying an environmental problem, the Company might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. Although the Company believes that it will be in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Argentina and Italy are signatories to the United Nations Framework Convention on Climate Change. Both countries have ratified the Kyoto Protocol and are thereby required to establish legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other "greenhouse gases". There is the risk that the Company may be subject to legislation in Argentina and Italy regulating emissions of greenhouse gases. The direct and indirect costs of complying with these emissions regulations may adversely affect the business of the Company.

Significant Capital Expenditure

The Company's business can involve significant capital expenditure and it may require additional capital to accelerate development plans relating to its existing assets in Azerbaijan and to fund the acquisition and development of additional value enhancing exploration, development and production opportunities should they be identified and arise in the future. If such acquisitions are identified and the Company is not generating sufficient cash flows from its operations at that time to fund these it may enter into significant borrowing arrangements in addition to raising further equity financing for its acquisition, exploration, development and production plans. There can be no assurance that the Company will be able to obtain debt financing or additional equity financing in the amounts required for expenditure beyond its current capital expenditure plans, or, if debt or equity financing is available, that it will be on terms acceptable to the Company.

Moreover, future activities may require the Company to alter its capitalisation significantly. If the Company fails to generate or obtain sufficient capital for its acquisition, exploration, development and production plans (beyond the Company's current planned capital expenditure), this could have a material adverse effect on the Company's future long term growth prospects.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties). There is a risk that demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

Operational Risks

Oil and natural gas development involves risk that, even with a combination of experience, knowledge and evaluation, the Company may not be able to overcome. The long-term commercial success of the Group depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Group may have at any particular time, and the production therefrom, will decline over time as such existing reserves are exploited. A future increase in the Group's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Group will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations unfeasible. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Group.

There is a risk that future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit. Completion of a well does not assure a profit or recovery of costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximising production over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, there is the risk that such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Company's claim which may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth herein are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary and risk exists when relying upon such estimates. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves, rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable and a higher level of risk exists than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, the Company's independent reserves evaluators have used forecast prices and costs in estimating the reserves and future net cash flows as summarised herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flow derived from the Company's oil and gas reserves will vary from the estimates contained in the reserve evaluations, and there is the risk that such variations may be material. The reserve evaluations are based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserve evaluations will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluations. The reserve evaluations are effective as of a specific effective date and have not been updated and thus do not reflect changes in the Company's reserves since that date.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions have worsened, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various governmental actions, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. The recovery from the recession has been slow in various jurisdictions and has been impacted by various ongoing factors including sovereign debt levels and high levels of unemployment which continue to impact commodity prices and result in high volatility in stock markets and therefore attract a level of risk with investing in the Company.

Prices, Markets and Marketing

Brent oil prices have declined since 2015 and are expected to remain volatile in the near future as a result of market uncertainties over supply and demand. Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank lending to the Company may, in part, be determined by the Company's borrowing base. A sustained material decline in prices could reduce the Company's borrowing base, therefore reducing the bank credit available to the Company which could require that a portion, or all, of the Company's bank debt be repaid.

Any material decline in oil and natural gas prices could result in a reduction of the Group's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in reduced production of oil or gas and a reduction in the volumes of the Group's reserves. The Group might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Group's expected net production revenue and a reduction in its oil and gas acquisition, development and exploration activities. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the Group. These factors include economic conditions in the United States and Canada, the actions of OPEC, governmental regulation, political stability in the Middle East, the foreign supply of oil and gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the Group's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's current crude oil production in Argentina is subject to the pricing provisions set by the Argentine government, which provides for sales into the Argentine domestic market at rates which vary from those in the international market. While the Group sells its oil to arm's length purchasers priced on a sale by sale basis, a portion of the oil produced by the Group is required to be sold domestically in Argentina at rates that do not reflect the international spot market.

There is the risk that marketability and price of oil and natural gas that may be acquired or discovered by the Company is and will continue to be affected by numerous factors beyond its control. The Company's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Company may also be affected by uncertainty of deliverability, as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Variations in Foreign Exchange Rates and Interest Rates

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/US dollar exchange rate. A significant portion of the Company's international activities are conducted in Euros in Italy, in US dollars and Argentine Pesos in Argentina, and New Manat in Azerbaijan and Pounds Sterling in the United Kingdom where the Company is exposed to changes in foreign exchange rates as operating expenses, capital expenditures, and financial instruments fluctuate due to changes in exchange rates. The Company does not use derivative instruments to hedge its exposure to foreign exchange risks. In recent years, the Canadian dollar has fluctuated materially in value against the United States dollar. Material increases in the value of the Canadian dollar lead to the risk of negatively impacting the Company's production revenues. Future Canadian/United States exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators.

To the extent that the Company engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Company may contract. An increase in interest rates could result in a significant increase in the amount the Company pays to service debt.

Leverage and Restrictive Covenants

The ability of the Company to make payments or advances will be subject to applicable laws and contractual restrictions in the instruments governing any indebtedness of the Company. The degree to which the Company is leveraged could have important consequences for shareholders including: (i) the Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) all or part of the Company's cash flow from operations may be dedicated to the payment of the principal of and interest on the Company's indebtedness, thereby reducing funds available for future operations; (iii) the Company's borrowings may be at variable rates of interest, which would expose the Company to the risk of increased interest rates; and (iv) the Company may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. These factors could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Issuance of Debt

From time to time the Company may enter into transactions to acquire assets or the shares of other organisations. These transactions may be financed in whole or in part with debt, which may increase the Company's debt obligations above industry standards for oil and natural gas companies of a similar size. Depending on future exploration and development plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Company's Articles nor its by-laws limit the amount of debt that the Company may incur. There is the risk that the level of the Company's debt obligations from time to time could impair the Company's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time the Company may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, there is a risk as the Company will not benefit from such increases and the Company may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time the Company may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Company will not benefit from the fluctuating exchange rate.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Company maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, leads to the risk of a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational financial systems and to expand, train and manage its employees. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Third Party Credit Risk

The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. If entities fail to meet their contractual obligations to the Company, this may have a material adverse effect on the Company's business, financial condition, and operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital programme, potentially delaying the programme and the results of such programme until the Company finds a suitable alternative partner.

Conflicts of Interest

Certain Directors of the Company are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the Business Corporations Act (British Columbia).

Reliance on Key Personnel

The Company's success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The Company does not have any key person insurance in effect. The contributions of the existing management team to the immediate and near term operations of the Company are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Company.

Competition

The petroleum industry is competitive and investing in the Company contains an inherent level of risk. The Company will compete with numerous other organisations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Company's competitors will include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Company. The Company's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

Seasonality

The level of activity in the international jurisdictions where the Company is or is intending to be active is influenced by seasonal weather patterns. There is the risk that seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines may delay the Company's activities and/or affect the prices for the Company's sales.

Possible Failure to Realise Anticipated Benefits of Future Acquisitions and Dispositions

The Company may make acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of any future acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realise the anticipated growth opportunities and synergies from combining the acquired businesses and operations with its own. The integration of acquired businesses requires substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that my adversely affect the Company's ability to achieve the anticipated benefits of these and future acquisitions. Non-core assets may be periodically disposed of, so that the Company can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Company, if disposed of, could be expected to realise less than their carrying value on the Company's financial statements.

Expiration of Permits, Licenses and Leases

The Company's properties are held in the form of permits, licenses, leases and working interests in permits, licenses and leases. If the Company or the holder of the permit, license or lease fails to meet the specific requirement of a permit, license or lease, the permit, license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each permit, license or lease will be met. The termination or expiration of the Company's permits, licenses or leases or the working interests relating to a permit, license or lease may have a material adverse effect on the Company's results of operations and business.

Delay in Cash Receipts

In addition to the expected time-lags in payment by producers of oil and natural gas to the operators of the Company's properties, and by the operators to the Company, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the Company's properties or the establishment by the operator of reserves for such expense.

Impact of Future Expenditures

The reserve values of the Company's properties, as estimated by independent engineering consultants, are based in part on cash flows to be generated in future years as a result of future capital expenditures and therefore contain a level of risk. The reserve values of the Company's properties, as estimated by independent engineering consultants, will be reduced to the extent that such capital expenditures on such properties do not achieve the level of success assumed in such engineering reports.

Changes in Legislation

It is possible that the Canadian and international governments and provincial/state or regulatory authorities may choose to change the income tax laws, royalty regimes, environmental laws or other laws applicable to oil and gas companies and that any such changes could materially adversely affect the Company and the market value of its Common Shares. In addition it is also possible that changes to legislation, which could adversely affect the market value of the Company could occur in other jurisdictions where the Company operates.

RISKS RELATING TO THE SHARES

The proposed Standard Listing of the Common Shares will afford investors a lower level of regulatory protection than a Premium Listing

Application has been made for the Common Shares to be admitted to a Standard Listing on the Official List. A Standard Listing will afford investors in the Company a lower level of regulatory protection than that afforded to investors in a company with a Premium Listing, which is subject to additional obligations under the Listing Rules. A Standard Listing will not permit the Company to gain a FTSE indexation, which may have an adverse effect on the valuation of the Common Shares.

Shareholders will not have the opportunity to vote to approve transactions

Unless such approval is required by law or other regulatory process, Shareholders will not have the opportunity to vote on transactions even if Common Shares are being issued as consideration for the transaction. Chapter 10 of the Listing Rules relating to significant transactions will not apply to the Company while the Company has a Standard Listing. The Company does not expect that Shareholder approval will be required in connection with transactions, and therefore, investors will be relying on the Company's and the Directors' ability to identify potential targets, evaluate their merits, conduct or monitor diligence and conduct negotiations.

Investors will experience a dilution of their percentage ownership of the Company on the exercise of outstanding Options, Warrants or conversion of Convertible Loan Notes or if the Company decides to offer additional Common Shares in the future

Other than the Placing, the Company has no current plans for an offering of its Common Shares. However, the Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company, including Common Shares, which may be dilutive. The Company may also issue additional Common Shares from time to time as the Board may determine pursuant to its Stock Option Plan. The exercise of Options or Warrants or conversion of Convertible Loan Notes will have a dilutive effect on Shareholder's percentage ownership of the Company and may result in a dilution of Shareholders' interest if the price per Common Share exceeds the subscription/conversion price payable at the relevant time.

Shareholders will not be entitled to the takeover offer protections provided by the City Code

The City Code applies, inter alia, to offers for all listed public companies considered by the Panel on Takeovers and Mergers to be incorporated or resident in the United Kingdom, the Channel Islands or the Isle of Man. The Company is not so incorporated or resident and therefore Shareholders will not receive the benefit of the takeover offer protections provided by the City Code. As the Company is a reporting issuer in Alberta and British Columbia, certain offers to purchase outstanding shares of the Company may be subject to the application of Canadian securities laws which require the making of an offer on identical terms to all shareholders in the local jurisdiction (with limited exceptions). Such rules are not necessarily equivalent to the rules under the City Code. Moreover, such laws may not necessarily apply where an offer is not made to a shareholder in Canada. Canadian securities laws provide that a person or company (the "offeror") that offers to purchase equity or voting securities (such as the Company's Common Shares) of a reporting issuer from security holders in Canada and resulting in an offeror owning or exercising control or direction, directly or indirectly, over equity or voting securities representing 20% or more of the outstanding securities of the class (including securities that the person or company has the right or obligation to acquire within 60 days, with or without conditions) must, subject to certain exemptions, make the offer, on identical terms, to all security holders in Canada in accordance with a number of requirements (referred to as "Canadian takeover bid rules"). Exemptions from the Canadian takeover bid rules are available in certain circumstances, including in the case of certain private transactions involving five or fewer vendors where the purchase price does not exceed 115% of the market price of the shares. Another exemption is available in the case of purchases on the open market where the aggregate number of shares pursuant to this exemption together with other acquisitions does not exceed 5% of the issued and outstanding shares over a twelve-month period.

The Canadian takeover bid rules apply where purchases are made from shareholders in Canada. Although Canadian securities regulatory authorities do have discretion to commence regulatory proceedings on the basis of public interest notwithstanding the fact that the relevant parties are not residents of Canada, the purchase and sale of securities from or by shareholders who are not in Canada may not necessarily be afforded the protection of the Canadian takeover bid rules.

The Company is incorporated in Canada, and as such is subject to Canadian company law

The Company is a company incorporated under the Business Corporations Act (British Columbia), and as such its corporate structure, the rights and obligations of Shareholders and its corporate bodies may be different from those of the home countries of international investors. Furthermore, non-Canadian residents may find it more difficult and costly to exercise shareholder rights. International investors may also find it costly and difficult to effect service of process and enforce their civil liabilities against the Company or some of its directors, controlling persons or officers.

There is currently no UK market for the Common Shares, notwithstanding the Company's intention to be admitted to trading on the London Stock Exchange. A UK market for the Common Shares may not develop, which would adversely affect the liquidity and price of the Common Shares

There is currently no UK market for the Common Shares. Therefore, investors cannot benefit from information about prior market history when making their decision to invest. The price of the Common Shares after the Placing also can vary due to a number of factors, including but not limited to, general economic conditions and forecasts, the Company's general business condition and the release of its financial reports. Although the Company's current intention is that its securities should continue to trade on the London Stock Exchange, it cannot assure you that it will always do so. In addition, an active UK trading market for the Common Shares may not develop or, if developed, may not be maintained. Investors may be unable to sell their Common Shares unless a market can be established and maintained, and if the Company subsequently obtains a listing on an exchange in addition to, or in lieu of, the London Stock Exchange, the level of liquidity of the Common Shares may decline.

The Common Shares of the Company trade in Canada on the TSXV with the symbol "ZEE". Liquidity for the Common Shares may have to be sought on this market in the absence of trading on the London Stock Exchange, however the Placing Shares may not be resold in Canada or to a resident of Canada for a period of four months and a day following Admission. The average daily volume for the Common Shares on the TSXV between 1 December 2015 and 30 November 2016 was 31,229.

Upon Admission the Company's shares will be listed on two separate stock markets and investors seeking to take advantage of price differences between such markets may create unexpected volatility in the share price; in addition, investors may not be able to easily move shares for trading between such markets

Common Shares are already listed and traded on TSXV and upon Admission will also be listed and traded on the London Stock Exchange. While shares are traded on both markets, price and volume levels for Common Shares could fluctuate significantly on either market, independent of the share price or trading volume on the other market. Investors could seek to sell or buy Common Shares to take advantage of any price differences between the two markets through a practice referred to as arbitrage. Any arbitrage activity could create unexpected volatility in both Common Share prices on either exchange and in the volumes of Common Shares available for trading on either market. In addition, holders of Common Shares in either jurisdiction will not be immediately able to transfer such shares for trading on the other market without effecting necessary procedures with the Company's transfer agents/registrars. This could result in time delays and additional cost for Shareholders.

Investors may not be able to realise returns on their investment in Common Shares within a period that they would consider to be reasonable

Investments in Common Shares may be relatively illiquid. There may be a limited number of Shareholders and this factor, together with the number of Common Shares to be issued pursuant to the Placing, may contribute both to infrequent trading in the Common Shares on the London Stock Exchange and to volatile Share price movements. Investors should not expect that they will necessarily be able to realise their investment in Common Shares within a period that they would regard as reasonable. Accordingly, the Common Shares may not be suitable for short-term investment. Admission should not be taken as implying that there will be an active trading market for the Common Shares. Even if an active trading market develops, the market price for the Common Shares may fall below the Placing Price.

The Company does not currently intend to pay dividends and its ability to pay dividends in the future may be limited

The Company has never declared or paid any dividends on the Common Shares. The Company currently intends to retain future earnings, if any, for future operations, expansion and debt repayment, if necessary. Therefore, at present, there is no intention to pay dividends and a dividend may never be paid. Any decision to declare and pay dividends will be made at the discretion of the Board of Directors and will depend on, among other things, the Group's results of operations, financial condition and solvency and distributable reserves tests imposed by corporate law and such other factors that the Board of Directors may consider relevant.

RISKS RELATING TO TAXATION

Future changes in tax regulation applicable to the Company's entities may reduce net returns to Shareholders

The treatment of Group entities is subject to changes in tax regulation or practices in territories in which Group entities are resident for tax purposes. Such changes may include (but are not limited to) the taxation of operating income, investment income, dividends received or (in the specific context of withholding tax) dividends paid. Any changes to tax legislation in territories in which the Group entities are resident for tax purposes may have a material adverse effect on the financial position of the Company, reducing net returns to Shareholders. In many jurisdictions, the resources sector is subject to particular taxation regimes which sometimes impose a comparatively heavy burden on activities within the sector and the comments made above are particularly salient in relation to such regimes.

Tax Risks Related to Italian Operations

In Italy, for onshore permits, the state royalty on production of both oil and gas is a maximum of 10%, with a provision that no royalties are paid on yearly production less than 125,000 bbls of oil and approximately 700 MMcf of gas, per field (or approximately 340 bbls/d and 1.9 MMcf/d). At the present time, the Group does not pay any state royalties since all its producing fields fall below the minimum royalty threshold. The corporate tax is a maximum of 28% and there are no restrictions on repatriation of profits. Going forward, there is the risk that potential changes in the tax and/or royalty system could have a significant impact on the tax payable by the Group.

Tax Risks Related to Argentinian Operations

The Group is exempt from taxes on production from the Alberto and Don Ernesto fields. Instead it pays only royalties. In the future, there is the risk that potential changes in the tax and/or royalty system could have a significant impact on the tax payable by the Group.

Tax Risks Related to Azerbaijani Operations

There are currently three separate and distinct tax regimes that are applicable in Azerbaijan: (i) the statutory regime, (ii) the tax regime applicable to oil and gas companies and mining companies operating under production sharing agreements ("**PSAs**") (this being the regime applicable to the Company) and (iii) the tax regime for companies working under host government agreements on the "Main Export Pipeline" and the "South Caucasus Pipeline".

Any changes to the tax regimes that currently apply in Azerbaijan may have an adverse effect on the financial position of the Group.

PART 3

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

No person has been authorised to give any information or to make any representations in connection with the Admission other than the information and representations in this Document and, if any other information is given or representations are made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company or the Directors.

The Company does not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness of appropriateness of any forecasts, views or opinions expressed by the press or other media regarding Admission, the Common Shares, the Company or the Group. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Without prejudice to any obligation of the Company under FSMA, the Prospectus Rules, the Listing Rules or the Disclosure Guidance and Transparency Rules, the delivery of this Document shall not, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or to the Group taken as a whole since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The contents of this Document or any subsequent communications from the Company, the Group or any of their respective affiliates, officers, advisers, directors, employees or agents are not to be construed as advice on legal, business, taxation, accounting, regulatory, investment or any other matters. Each investor should consult his or her own lawyer, financial adviser or tax adviser for legal financial or tax advice, as appropriate.

Investors should read this Document in its entirety.

Presentation of financial information

The financial information presented in this Document includes:

- audited consolidated financial information for the Group as at and for the years ended 31 March 2016, 2015 and 2014; and
- unaudited consolidated interim financial information for the Group as at and for the six months ended 30 September 2016, together with the comparative period (30 September 2015),

in each case, prepared in accordance with IFRS as adopted by the European Union. Unless otherwise indicated, the financial information presented in this Document has been prepared in accordance with IFRS as adopted by the European Union.

Non-financial operating data

The non-financial operating data included in this Document has been extracted without material adjustment from the management records of the Group and is unaudited.

Currencies

In this Document, references to "**GBP**", "**pounds sterling**", "**£**", "**pence**" or "**p**" are to the lawful currency of the UK; references to "**USD**", "**USD $**", "**US dollars**", "**dollars**", "**US $**", "**cents**" or "**c**" are to the lawful currency of the United States; references to "**Canadian dollars**", "**Canadian $**", "**CAD**" or "**CAD $**" are to the lawful currency of Canada; references to "**Euro**", "**EUR**" or "**€**" are to the lawful currency of the member states of the European Union who have adopted the Euro and references to "**New Manat**", "**Manat**" or "**AZN**" are to the lawful currency of Azerbaijan.

The basis of translation of any foreign currency transactions and amounts in the financial information set out in Part 16: "*Historical Financial Information*" is described in that Part 16.

Rounding

Percentages and certain amounts in this Document, including financial, statistical and operating information, have been rounded to the nearest thousand whole number or single decimal place for ease of presentation. As a result, the figures shown as totals may not be the precise sum of the figures that precede them. In addition, certain percentages and amounts contained in this Document reflect calculations based on the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages or amounts that would be derived if the relevant calculations were based upon the rounded numbers.

Third Party Information

The Company confirms that all third party information contained in this Document has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where third party information has been used in this Document, the source of such information has also been identified.

Reserves and resources reporting – basis of preparation

Chapman Petroleum has prepared an independent appraisal of the oil and gas reserves owned by the Company.

The CPR includes a review of the sources of information and the evaluation standard used for reporting reserves and resources. The evaluation and report preparation have been carried out in accordance with the standards set out in the APEGA professional practice standard "The Canadian Oil and Gas Evaluation Handbook" ("**COGEH**") in conjunction with COGEH definitions, and are generally compliant with PRMS standards.

As set out in paragraph 5.1 of the Introduction of the CPR, the sources of data used in the preparation of the CPR are as follows:

Argentina and Italy

- Ownership and burdens have been derived from the Company's land records and other information from the Company as required for clarification.
- Production data is acquired directly from the Company or the operator of the property.
- Well data is accessed from the Company's well files.
- Operating costs are based on actual revenue and expense statements provided by the Company for established properties or from discussions with the Company and the Competent Person's experience in the area for new non-producing properties.
- Price differentials are derived from revenue statements, compared to actual posted prices for the appropriate benchmark price over a period of several months for established properties or from discussions with the Company and the Competent Person's experience in the area for new or non-producing properties.
- Timing of development plans and capital estimates are normally determined by discussions with the Company together with the Competent Person's experience and judgment.

Azerbaijan

- Ownership and burdens have been derived from the REDPSA under which the Company operates and other information from the Company as required for clarification.
- Production data has been provided by SOCAR, which operated the field until formal handover to the Company completed on 11 August 2016.
- Well data is accessed from SOCAR's well files.
- Operating Costs are based on actual revenue and expense statements provided by SOCAR, from discussions with the Company and a detailed long term budget prepared by the Company.

- Oil is sold into the Urals Oil system through the Baku-Novorossiysk pipeline system and will receive the average price for Urals Oil.
- Timing of development plans and capital estimates have been determined by discussions with the Company together with the Competent Person's experience and judgment.

Forward-looking statements

Certain statements in this Document including any information as to the Group's strategy, plans or future financial or operating performance constitute, or may be deemed to constitute, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "projects", "expects", "intends", "aims", "plans", "predicts", "may", "will", "target", "continue", "seeks" or "should" or, in each case, their negative or other variations or comparable terminology or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Document and include statements regarding the intentions, beliefs or current expectations of the Directors of the Company concerning, amongst other things, the investment objectives and policies, financing strategies, performance, results of operations, financial condition, prospects, growth and dividend policy of the Company and the markets in which it and the other companies in the Group operate.

By their nature, forward-looking statements address matters that involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company's actual performance, results of operations, financial condition, dividend policy, the development of its financing and operational strategies and the development of the business sector in which the Group operates may differ materially from the impression created by the forward-looking statements contained in this Document. In addition, even if the performance, results of operations, financial condition and dividend policy of the Company, the development of its financing and operating strategies and the development of the business sector in which the Group operates, are consistent with the forward-looking statements contained in this Document, those results or developments may not be indicative of results or developments in subsequent periods.

Except as required by the Listing Rules, the Disclosure Guidance and Transparency Rules, the Prospectus Rules, the London Stock Exchange or otherwise required by law or regulation, the Company expressly disclaims any obligation or undertaking to release publically any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Prospective investors are advised to read this Document and the accompanying documents in their entirety for further discussion of the factors that could affect the Group's future performance and the industries and markets in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Document and the accompanying documents may not occur. Prospective investors should note that the contents of these paragraphs relating to forward-looking statements are not intended to qualify the statements made as to sufficiency of working capital in this Document.

No incorporation of website information

The contents of the Company's website, any website mentioned in this Document or any website directly or indirectly linked to these websites have not been verified and do not form part of this Document and investors should not rely on such information.

Definitions and technical terms

A list of defined terms and technical terms used in this Document is set out in Part 21: "*Definitions*" and Part 22: "*Glossary of Technical Terms*".

PART 4

CONSEQUENCES OF A STANDARD LISTING

Application has been made for the Common Shares to be admitted to listing on the standard segment of the Official List pursuant to Chapter 14 of the Listing Rules, which sets out the requirements for Standard Listings. A Standard Listing affords Shareholders and investors in the Company a lower level of regulatory protection than that afforded to investors in companies whose securities are admitted to the premium segment of the Official List, which are subject to additional obligations under the Listing Rules.

Listing Principles 1 and 2, as set out in Chapter 7 of the Listing Rules, also apply to the Company, and the Company complies with such Listing Principles.

Chapter 14 of the Listing Rules sets out the requirements for Standard Listings and does not require the Company to comply with, inter alia, the provisions of Chapters 6 to 13 of the Listing Rules, which includes, in particular:

- Chapter 8 of the Listing Rules regarding the appointment of a listing sponsor to guide the Company in understanding and meeting its responsibilities under the Listing Rules in connection with certain matters. The Company has not and does not intend to appoint such a sponsor in connection with the Placing and Admission;
- Chapter 9 of the Listing Rules relating to further issues of shares, issuing shares at a discount in excess of 10% of market value, notifications and contents of financial information;
- Chapter 10 of the Listing Rules relating to significant transactions. It should be noted therefore that transactions will not require Shareholder consent, even if Common Shares are being issued as consideration for such transactions. However, the Company will seek Shareholder consent at a general meeting for transactions if it would constitute a reverse takeover;
- Chapter 11 of the Listing Rules regarding related party transactions. It should be noted therefore that related party transactions will not require Shareholder consent;
- Chapter 12 of the Listing Rules regarding purchases by the Company of its Common Shares. In particular, the Company has not adopted a policy consistent with the provisions of Listing Rules 12.4.1 and 12.4.2. The Company will have unlimited authority to purchase Common Shares; and
- Chapter 13 of the Listing Rules regarding the form and content of circulars to be sent to Shareholders.

There are, however, a number of continuing obligations set out in Chapter 14 of the Listing Rules that will be applicable to the Company. These include requirements as to:

- the forwarding of circulars and other documentation to the UKLA for publication through the document viewing facility and related notification to a regulatory information service;
- the provision of contact details of appropriate persons nominated to act as a first point of contact with the UKLA in relation to compliance with the Listing Rules and the Disclosure Guidance and Transparency Rules;
- the form and content of temporary and definitive documents of title;
- the appointment of a registrar;
- the making of regulatory information service notifications in relation to a range of debt and equity capital issues; and
- at least 25% of the Common Shares being held by the public.

In addition, as a company whose securities are admitted to trading on a regulated market, the Company will be required to comply with the Disclosure Guidance and Transparency Rules.

There are no provisions in the Articles that require new Common Shares to be issued on a pre-emptive basis to existing Shareholders and there are no statutory pre-emption rights.

It should be noted that the UK Listing Authority will not have the authority to (and will not) monitor the Company's compliance with any of the Listing Rules which the Company has indicated herein that it intends to comply with on a voluntary basis, nor to impose sanctions in respect of any failure by the Company so to comply. However the FCA would be able to impose sanctions for non-compliance where the statements regarding compliance in this Document are themselves misleading, false or deceptive.

It should be noted that the Common Shares are, and will continue to be, listed and posted for trading on the TSXV and consequently obligations arising from applicable securities and corporate legislation in Canada, as well as the rules of the TSXV, will continue to apply to the Company.

PART 5

IMPORTANT INFORMATION

In deciding whether or not to invest in Placing Shares, prospective investors should rely only on the information contained in this Document. No person has been authorised to give any information or make any representations other than as contained in this Document and, if given or made, such information or representations must not be relied on as having been authorised by the Company or the Directors. Without prejudice to the Company's obligations under FSMA, the Prospectus Rules, Listing Rules and Disclosure Guidance and Transparency Rules, neither the delivery of this Document nor any Placing made under this Document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Document or that the information contained herein is correct as at any time after its date.

Prospective investors must not treat the contents of this Document or any subsequent communications from the Company, the Directors, or any of their respective affiliates, officers, directors, employees or agents as advice relating to legal, taxation, accounting, regulatory, investment or any other matters.

The section headed "Summary" should be read as an introduction to this Document. Any decision to invest in the Common Shares should be based on consideration of this Document as a whole by the investor. In particular, investors must read the section headed "Section D—Risks" of the Summary together with the risks set out in the section headed "Risk Factors" beginning on page 21 of this Document.

Any reproduction or distribution of this Document, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Placing Shares offered hereby is prohibited. Each offeree of Placing Shares, by accepting delivery of this Document, agrees to the foregoing.

This Document does not constitute, and may not be used for the purposes of, an offer to sell or an invitation or the solicitation of an offer or invitation to subscribe for or buy, any Common Shares by any person in any jurisdiction (i) in which such offer or invitation is not authorised; (ii) in which the person making such offer or invitation is not qualified to do so; or (iii) in which, or to any person to whom, it is unlawful to make such offer, solicitation or invitation. The distribution of this Document and the offering of the Common Shares in certain jurisdictions may be restricted. Accordingly, persons outside the United Kingdom who obtain possession of this Document are required by the Company, and the Directors to inform themselves about, and to observe any restrictions as to the offer or sale of Common Shares and the distribution of, this Document under the laws and regulations of any territory in connection with any applications for Common Shares, including obtaining any requisite governmental or other consent and observing any other formality prescribed in such territory. No action has been taken or will be taken in any jurisdiction by the Company or the Directors, that would permit a public offering of the Common Shares in any jurisdiction where action for that purpose is required, nor has any such action been taken with respect to the possession or distribution of this Document other than in any jurisdiction where action for that purpose is required. Neither the Company, nor the Directors accepts any responsibility for any violation of any of these restrictions by any other person.

The Common Shares have not been and will not be registered under the Securities Act, or the securities laws of any state or other jurisdiction of the United States or qualified for sale under applicable securities laws of Australia, Canada, Japan or the Republic of South Africa. Subject to certain exceptions, the Common Shares may not be offered, sold, resold, reoffered, pledged, transferred, distributed or delivered, directly or indirectly, within, into or in the United States or to or for the account or benefit of U.S. persons (as defined in Rule 902 under the Securities Act) or to persons in the United States, Australia, Canada (other than pursuant to exemptions from the prospectus requirement under Canadian securities legislation), Japan, the Republic of South Africa or any other jurisdiction where such offer or sale would violate the relevant securities laws of such jurisdiction. The Placing Shares may not be resold in Canada or to a resident of Canada for a period of four months and one day following Admission.

Data protection

The Company may delegate certain administrative functions in relation to the Company to third parties and will require such third parties to comply with data protection and regulatory requirements of any jurisdiction in which data processing occurs. Such information will be held and processed by the Company (or any third party, functionary or agent appointed by the Company) for the following purposes:

(a) verifying the identity of the prospective investor to comply with statutory and regulatory requirements in relation to anti-money laundering procedures;

(b) carrying out the business of the Company and the administering of interests in the Company;

(c) meeting the legal, regulatory, reporting and/or financial obligations of the Company in Canada, the United Kingdom or elsewhere; and

(d) disclosing personal data to other functionaries of, or advisers to, the Company to operate and/or administer the Company.

Where appropriate it may be necessary for the Company (or any third party, functionary or agent appointed by the Company) to:

(a) disclose personal data to third party service providers, agents or functionaries appointed by the Company to provide services to prospective investors; and

(b) transfer personal data outside of the EEA to countries or territories which do not offer the same level of protection for the rights and freedoms of prospective investors as the United Kingdom.

If the Company (or any third party, functionary or agent appointed by the Company) discloses personal data to such a third party, agent or functionary and/or makes such a transfer of personal data it will use reasonable endeavours to ensure that any third party, agent or functionary to whom the relevant personal data is disclosed or transferred is contractually bound to provide an adequate level of protection in respect of such personal data.

In providing such personal data, investors will be deemed to have agreed to the processing of such personal data in the manner described above. Prospective investors are responsible for informing any third party individual to whom the personal data relates of the disclosure and use of such data in accordance with these provisions.

Selling and transfer restrictions

Prospective investors should consider (to the extent relevant to them) the notices to residents of various countries set out in Part 19: "*Notices to Investors*".

Investment considerations

In making an investment decision, prospective investors must rely on their own examination, analysis and enquiry of the Company, this Document and the terms of the Placing, including the merits and risks involved. The contents of this Document are not to be construed as advice relating to legal, financial, taxation, investment decisions or any other matter. Prospective investors should inform themselves as to:

- the legal requirements within their own countries for the purchase, holding, transfer or other disposal of the Common Shares;

- any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of the Common Shares which they might encounter; and

- the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of the Common Shares or distributions by the Company, either on a liquidation and distribution or otherwise. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

An investment in the Company should be regarded as a long-term investment. There can be no assurance that the Company's objective will be achieved.

It should be remembered that the price of the Common Shares, and any income from such Common Shares, can go down as well as up.

This Document should be read in its entirety before making any investment in the Common Shares. All Shareholders are entitled to the benefit of, are bound by, and are deemed to have notice of, the provisions of the Notice of Articles and Articles of the Company, which investors should review.

PART 6

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this Document	5 January 2017
Admission and commencement of unconditional dealings in Common Shares	8.00 a.m. on 11 January 2017
CREST members' accounts credited in respect of Depositary Interests	8.00 a.m. on 11 January 2017
Despatch of definitive share certificates for Shares by no later than	25 January 2017

These dates and times are indicative only, subject to change and may be brought forward as well as moved back, in which case new dates and times will be announced. All references to time in this Document are to London, UK time unless otherwise stated and each of the times and dates are indicative only and may be subject to change.

For the purposes of this Document, the exchange rates applicable are, unless otherwise disclosed, as follows:

From	**To**	**Exchange Rate**
USD	GBP	0.8101
GBP	USD	1.2340
EUR	GBP	0.8535
GBP	EUR	1.1731
CAD	GBP	0.6028
CAD	USD	0.7441

PART 7

PLACING STATISTICS

Number of Common Shares in issue as at the date of this Document	64,574,153
Number of Placing Shares	33,322,143
Number of Manager Shares	668,571
Total number of Common Shares in issue following the Placing, the issue of the Manager Shares and Admission	98,564,867
Placing Price per new Common Share	£0.07
Market capitalisation at the Placing Price	6,899,541
Number of Options outstanding at 30 December 2016	6,000,000
Number of Warrants outstanding at 30 December 2016	46,881,622
Number of Convertible Loan Notes outstanding at 30 December 2016	8,461,840
Fully diluted Share Capital following the Placing, the issue of the Manager Shares and Admission (assuming all outstanding Options, Warrants and Convertible Loan Notes are converted to Common Shares)	159,908,329
Estimated Net Proceeds receivable by the Company	£2,015,922
Estimated transaction costs	£316,628

PART 8

DIRECTORS, SECRETARY AND ADVISERS

Directors	Jose Ramon Lopez-Portillo *(Chairman and Non-Executive Director)* Andrea Cattaneo *(President, CEO and Director)* Luigi Regis Milano *(Director)* Dario E. Sodero *(Non-Executive Director)* Francesco Salimbeni *(Non-Executive Director)* Erik Larre *(Non-Executive Director)*
Proposed Director	Andrew Morrison *(Proposed Non-Executive Director)*
Registered Office	20th Floor 250 Howe Street Vancouver BC V6C 3R8 Canada
Head Office	15th Floor Bankers Court 850 – 2nd Street S.W. Calgary, Alberta T2P 0R8 Canada Telephone Number: +1 (587) 315 9031
Website	www.zenithenergy.ca
Legal Advisers to the Company (as to English law)	Dechert LLP 160 Queen Victoria Street London EC4V 4QQ United Kingdom
Legal Advisers to the Company (as to Canadian law)	Norton Rose Fullbright Canada LLP Suite 3700, 400 3rd Avenue SW Calgary Alberta T2P 4H2 Canada
Legal Advisers to the Company (as to Argentinian law)	Butera Almenara Ana Karina Lavalle 1546 PB C1038AAK Buenos Aires
Legal Advisers to the Company (as to Italian law)	Studio Legale Giuliano Pennisi Via Garibaldi 12 16123 Genova Italy
Legal Advisers to the Company (as to Azerbaijani law)	Norton Rose Fulbright Canada LLP Suite 3700, 400 3rd Avenue SW Calgary Alberta T2P 4H2 Canada

	BM Morrison Partners Villa 9, English Yard 43, Mammad Araz Street AZ1106, Baku Azerbaijan
Auditors to the Company	MNP LLP 1500, 640 – 5th Avenue SW Calgary, Alberta T2P 3G4 P Canada
Reporting Accountants	PKF Littlejohn LLP 1 Westferry Circus Canary Wharf London E14 4HD United Kingdom
Competent Person	Chapman Petroleum Engineering Ltd 1122 4th Street S.W. Suite 700 Calgary Alberta T2R 1M1 Canada
Depositary and Registrar	Computershare Investor Services Plc The Pavilions Bridgwater Road Bristol BS99 6ZZ United Kingdom Computershare Trust Company of Canada 100 University Avenue 8th Floor Toronto ON M5J 2Y1 Canada

PART 9

ARGENTINA, ITALY AND AZERBAIJAN

1 Information on Argentina[1]

1.1 Overview of the oil and gas industry in Argentina

The hydrocarbons sector in Argentina has experienced different stages since the first oil discovery in 1907. Such stages began with the state monopoly over hydrocarbons during the first decades, a process of deregulation peaking during the 1990's, and, recently, acts of nationalisation. Argentina is now the second largest producer of natural gas and the fourth largest producer of crude oil in Central and South America, based on 2013 production, according to the 2014 edition of the BP Statistical Review of World Energy, published in June 2014. According to such statistical review, Argentina's energy consumption was 84.5 million tonnes oil equivalent in 2013. Natural gas consumption accounted for approximately 51.12% and consumption of petroleum products represented 34.79% of the total energy portfolio.

According to the US Energy Information Administration, natural gas is used mainly in the electricity, industrial, and residential sectors whilst oil is the primary fuel used in the transportation sector. A smaller percentage of Argentina's energy consumption is provided by nuclear, coal, and hydropower, which are used for electricity generation. Other renewable resources are used to produce biofuels for transportation.

Notwithstanding the above statistics, production of oil and gas has been decreasing in recent years, while consumption has increased. This has resulted in the need to import natural gas and liquefied natural gas (LNG) to meet current demand. Additionally, the export of hydrocarbons from Argentina is restricted to ensure the availability of the energy resources for the local market.

1.2 Government policy objectives

The Argentine Government's primary objective is to obtain hydrocarbon self-sufficiency. Other objectives include exploring for, producing, industrialising, transporting and commercialising hydrocarbons in order to: (i) guarantee economic development with social equity; (ii) create jobs within Argentina; (iii) increase the competitiveness of diverse economic sectors; and (iv) promote the equitable and sustainable growth of the provinces and regions within Argentina.

1.3 Regulation of the oil and gas industry in Argentina

(a) Regulatory bodies

The Government of Argentina acts within the framework of a federal system. Argentina is divided into 24 jurisdictions, 23 of which are provinces, and one is the autonomous City of Buenos Aires. Each jurisdiction has its own constitution and laws.

Regulation of oil and gas extraction has been a subject of discussion since the National Constitution of Argentina was amended in 1994. The provinces became the owners of the natural resources that exist in their territory. The amendments to the National Constitution have led to argument as to whether the provinces now have power, in addition to the federal Argentine Government, to regulate the extraction of oil and gas. Previously, this power was held exclusively by the federal Argentine Government.

In practice, provincial states have generally issued legislation regulating the extraction of oil and gas within their respective provinces whilst the federal executive power is responsible for the design of energy policy at a national level. The federal Argentine Government and the oil and gas-producing provincial states have their own regulatory authorities that control, manage and supervise the extraction of oil and gas in accordance with applicable regulations.

1 © This information is taken principally from the Country Q&A Guide titled "*Oil and Gas Regulation in Argentina: overview*" authored by Matias Borderes and Diego Parravicini. The content was first published in the Energy and Natural Resources Multi-Jurisdictional Guide 2014 and is reproduced with the permission of the publisher, THOMSON REUTERS (PROFESSIONAL) UK LIMITED via PLSclear.

With regard to natural gas, the provinces' powers do not cover transport and distribution. The transport and distribution of natural gas is subject to federal jurisdiction.

Each province has its own regulatory authority for health, safety and the environment.

(b) **The legal and regulatory regime**

The following principal laws in Argentina govern and regulate the oil and gas sector:

(i) Laws No. 17,319 (enacted June 1967) and Laws No. 26,197 contain the basic framework applicable to oil and gas exploration and production;

(ii) Law No. 24,076 governs the transport and distribution of natural gas; and

(iii) Law No. 26,659 (enacted March 2011) regulates offshore exploration and production activities.

In addition, further legislation was issued by the federal Argentine Government in 2012 and 2013. These include:

(i) Law No. 26,741 which, among other things, approved the expropriation of 51% of the shares of YPF S.A., the main oil and gas company in Argentina;

(ii) Executive Order No. 1277/2012 which, among other things, created the Commission for Planning and Strategic Coordination of the National Hydrocarbons Plan and regulates the National Plan of Hydrocarbon Investments; and

(iii) Executive Order No. 929/2013 which established incentives for oil and gas exploration and production.

The exploration and production of oil and gas is generally carried out by the granting of exploration permits and production concessions. The federal Argentine Government and provincial states, as owners of the hydrocarbon reserves grant these permits and concessions to individuals, or public or private companies (including foreign companies registered in Argentina).

The federal regulatory authority is the Energy Secretariat (Secretaría de Energía) within the Ministry of Federal Planning, Public Investment and Services, whilst the regulatory authority for the transport and distribution of all natural gas (subject to federal jurisdiction) is the national gas regulator, Ente Nacional Regulador de Gas. Each provincial state (that is, an oil and gas-producing province) has its own regulatory authority.

The powers of the federal Argentine Government and provincial states, and their regulatory authorities, include, among others, power to:

(i) grant exploration permits, production concessions and transport concessions;

(ii) control and supervise compliance of the terms set out in the permits and concessions that have been granted;

(iii) enforce the compliance of legal or contractual obligations; and

(iv) grant time extensions to permits and concessions.

1.4 **Rights to oil and gas**

The provinces are the owners of the natural resources (including hydrocarbons) that exist in their territory. Liquid and gas hydrocarbon reserves located in Argentina belong (depending on their location) to the federal state or the provincial states.

Hydrocarbon reserves located in the provincial territories, including those located at sea next to its shores up to a distance of 12 nautical miles, belong to the provincial state of that territory, whilst those hydrocarbon reserves located at sea over a distance of 12 nautical miles belong to the federal state.

Mineral rights, including oil and gas, are severable from the general ownership of a person's property within Argentina. Therefore, a land owner does not own, by virtue of owning the land, the oil and gas located beneath his property.

The federal Government of Argentina and provincial states generally grant exploration permits or production concessions to public entities, or private individuals or entities. Permit or concession holders are the owners of the hydrocarbons that they extract and can transport, industrialise and commercialise them pursuant to applicable regulations. Additionally, an exploration permit allows the holder (among other things) to:

(a) explore for hydrocarbons in a specified area for a certain period of time;

(b) obtain a production concession;

(c) construct infrastructures required to explore for hydrocarbons (i.e. roads, buildings and other installations); and

(d) own the hydrocarbons extracted.

An exploration permit is usually granted through a public bid. In some cases, the permits are granted to the provincial oil and gas company that, in turn, carries out a public bid to contract private partners. Permits (or rights of association) are usually granted to the bidder that offers to carry out the greatest amount of investment in the applicable area.

A hydrocarbon production concession allows the holder (among other things) to:

(a) explore and produce hydrocarbon reserves located in the area;

(b) obtain a transport concession;

(c) carry out the acts required to produce hydrocarbons (including the construction of oil treatment and refinement plants, roads, buildings and other installations);

(d) own the hydrocarbons extracted; and

(e) lease the concession term.

1.5 Transportation by pipeline

Pipelines that run through two or more provinces, or to/from a foreign country, are subject to federal jurisdiction. Pipelines located exclusively in a province are subject to the jurisdiction of that province. Concessions for the transport and distribution of natural gas are granted by the federal state. Concession holders have the obligation to build, maintain and operate pipelines in accordance with the terms of the concession.

Production concession holders have the right to obtain a transport concession to transport their hydrocarbon production and pipelines and other transport infrastructure are subject to open access.

1.6 Health, safety and the environment

(a) Health and safety

Law No. 19,587 and Executive Order No. 351/99 set out general health and hygiene guidelines and standards applicable to all activities, including the oil and gas industry. Under the regulations, employers must comply with specific requirements in connection with on-site personnel protection, such as drinking water quality standards, noise limits, air quality levels, and fire protection measures.

Further, both the federal Government of Argentina and provinces have enacted a wide array of regulations addressing different safety risks involved in the exploration and exploitation of hydrocarbon activities, such as contingency plans, well abandonment, control measures for fuel storage tanks and transportation.

Regarding liquid hydrocarbon transportation, the Energy Secretariat has enacted various technical requirements and safety standards applicable to oil pipelines and safety requirements applicable to fuel elaboration and storage facilities.

(b) **Environmental permits**

Apart from the environmental impact assessment rules, companies must also:

(i) comply with other federal and provincial environmental rules and standards applicable to oil and gas exploration and exploitation activities; and

(ii) obtain different permits and/or licences involving various matters, such as generation of waste and/or water or air quality protection.

Provinces have their own permit regulatory regime and, therefore, the requirements vary from province to province.

1.7 **Decommissioning**

The transfer of a block or concession back to the state implies the transfer (for no consideration) of rights to the wells located there, including the machines and equipment normally required for their operation and maintenance and of other infrastructure permanently located there (such as buildings). Equipment not exclusively involved in the production of the reserves is excluded. The Energy Secretariat establishes the rules applicable to the abandonment of inactive wells (whether or not they have been abandoned temporarily or permanently). Abandonment of wells is carried out by the permission or concession holder.

Lack of compliance with any resolution set by the Energy Secretariat in regard to abandonment can result in administrative sanctions. In addition, the permit or concession holder may be liable for the environmental damage (or other types of damage) it causes.

1.8 **Sale and trade**

The terms and conditions applicable to the sale of hydrocarbons in Argentina by the producers to refineries is freely negotiated between parties. The sale of natural gas to local customers and small business is carried out by distributors. The price of gas is subject to different regulations and agreements entered into between the federal Government of Argentina and the natural gas producers.

The Commission for Planning and Strategic Coordination of the National Hydrocarbons Plan, created by Executive Order 1277/2012, is entitled to establish the criteria that govern the commercialisation of hydrocarbons to ensure reasonable prices. It can also establish referential sale prices of hydrocarbons and fuels.

The Group is exempt from taxes on production from the Alberto and Don Ernesto fields in Argentina. Instead it pays royalties, which are charged on oil revenues and which equate to approximately 9% of revenue.

The price for the oil produced in the Chubut province (which is called "Escalante"), which represents the largest quantity of oil produced in Argentina, has gradually increased from US$42.00 per bbl in early 2010 to US$63.00 per bbl in December 2013 followed by an increase to US$67.00 per bbl for the majority of 2014 and a decrease to an average of US$60.00 per bbl in 2015. From December 2015 to March 2016, Escalante crude was set at a price of US$59 per bbl.

1.9 **Enforcement of regulations**

Regulators are usually authorised to issue resolutions and orders with respect to matters subject to their jurisdiction. These include general orders (applicable to an undetermined amount of persons) and specific orders (applicable to a specific person).

The regulator can impose a number of penalties including fines, warnings, termination of an exploration permit or production concession and/or the suspension or elimination of the applicable person from the registry.

2 Information on Italy

2.1 Overview of the oil and gas industry in Italy

Italy produces small volumes of natural gas and oil and virtually no coal. Therefore, most of the country's fossil-fuel supplies (as well as a significant share of its electricity) are imported. They are augmented by local production of energy from renewable sources resulting in an increasing local dependence on imports in recent years.

In 2013, oil and natural gas accounted for around 40% of Italy's total primary energy supply, with the remainder attributed to coal (8%), combustible renewables and waste (4%), hydro and geothermal energy (both 3%) and imported electricity (2%). In total, indigenous production meets 16% of the country's primary energy needs.

2.2 Government policy objectives

In 2013, after more than twenty years, the Italian Government released a new National Energy Strategy. The four main pillars of the National Energy Strategy are:

(a) fostering the competitiveness of the Italian economic system;

(b) protecting the environment;

(c) strengthening the security of energy supply; and

(d) promoting green economic growth.

Natural gas and other fossil fuels are central elements in the National Energy Strategy policy. Specific measures include the promotion of a competitive natural gas market, the development of a European-integrated electricity market, an increase in the national production of fossil fuels and the restructuring of the downstream oil market.

2.3 Regulation of the oil and gas industry in Italy

Italy has liberalised its electricity and gas sectors progressively in conformance with EU directives. Transmission and distribution of natural gas and electricity have been unbundled and a regulator, Autorità per l'Energia Elettrica e il Gas, set up to supervise access to networks and regulate tariffs.

The Italian oil market is fully liberalised and the Italian Government intervenes only to protect competition or to prevent an abuse of a dominant position.

2.4 Prices, taxes and support mechanisms in Italy

The prices of all forms of energy except electricity are set freely by the market. Additionally, electricity and gas productions are exempt from VAT for producers, except for the final seller to consumers.

Gas consumers have a choice of supply from incumbent suppliers at regulated tariffs or from alternative suppliers at market rates. The choice is not binding and consumers can change from one service to another at no additional cost.

In Italy, for onshore permits, the state royalty on production of both oil and gas is a maximum of 10%, with a provision that no royalties are paid on yearly production below 125,000 bbls of oil and approximately 700 MMcf of gas, per field (or approximately 340 bbls/d and 1.9 MMcf/d). At the present time, the Group does not pay any state royalties since all its producing fields fall below the minimum royalty threshold.

Italy applies different rates of VAT and excise tax on energy at the national level. Oil products are subject to excise tax and VAT (at a rate of 22%) for gasoline, diesel, light fuel oil and LPG. Natural gas is subject to an excise tax, VAT and additional taxes at the regional level; together they represent approximately 37.4% of the final price paid by end-consumers. A lower rate of VAT, currently 10%, is applied to sales of natural gas up to 480 cubic metres a year, and 22% for the remaining consumption. Different rates of excise tax are levied on gas according to whether the consumer is a business or a household and to the level of consumption.

3 Information on Azerbaijan[2]

3.1 Overview of the oil and gas industry in Azerbaijan

Since gaining independence from the USSR in 1991, the Republic of Azerbaijan's oil and gas extraction industry has been the major sector of its national economy. Azerbaijan is located within the South Caspian Sea basin, on the western coast of the Caspian Sea. Azerbaijan is one of the world's pioneers in the development of oil and gas fields. In 1846, the first oil well was mechanically drilled in Azerbaijan. By 1901, in excess of 50% of the world's oil production derived from Azerbaijan.

Azerbaijan continued with the successful development of its oil and gas reserves post-independence from the USSR, and the industry has drawn substantial foreign direct investments. Since early 2014, Azerbaijan's crude oil reserves were estimated to be 7 billion barrels, and natural gas production was estimated at 35 trillion cubic feet. The volume of oil production in Azerbaijan has increased nearly threefold in the last ten years. In 2013, according to the U.S Energy Information Administration report dated 1 August 2014, Azerbaijan produced 881,000 barrels per day ("**bbl/d**") of petroleum and other liquids, and consumed about 85,000 bbl/d. During this same period, natural gas production increased by five times, and in 2013 reached 29.4 billion cubic meters.

The majority of the oil and gas production in Azerbaijan is exported. According to Azerbaijan's State Statistical Committee, Azerbaijan exported an estimated 738,000 bbl/d of crude oil in 2013. Azerbaijan is now one of the major gas exporters in the region with in excess of 8.5 billion cubic meters of natural gas exported in 2014. There are two main natural gas exporters: (i) SOCAR and (ii) the BP-led consortium of international energy companies.

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

In the last ten years, Azerbaijan has diversified its oil and gas export routes. It aims to transform Azerbaijan into a major energy corridor, through which energy resources of Central Asia will be transported to European consumers. Exports are made to European and Asian countries, which include Ukraine, Turkey and India. Italy and Israel are the biggest importers of Azerbaijani crude oil. Natural gas is exported to Georgia, Turkey, Russia and Iran through various pipelines.

Azerbaijan intends to increase its export of natural gas to approximately 25 billion cubic meters by 2019. In addition, it intends to expand its exports to the EU by the development of the second stage of the Shah Deniz project. As part of the Shah Deniz project, the consortium of international energy companies intends to build the Trans-Anatolian pipeline ("**TANAP**"), which will pass through Turkish territory and the Trans-Adriatic pipeline, and will be connected to TANAP to deliver natural gas to Italy through Greece and Albania.

Approximately 42% of domestic energy consumption is met by natural gas, while oil products represent 38% of energy consumption according to statistical data in 2014. Electricity production depends heavily on the consumption of natural gas. 89% of electricity was generated using natural gas in 2012. LNG is not used for energy consumption domestically.

3.2 Domestic market structure

The domestic upstream oil and gas market of Azerbaijan is dominated by SOCAR. SOCAR holds statutory exclusive rights for the development and production in Azerbaijan of oil and natural gas. SOCAR is an integrated energy company, which is active in all segments of the domestic oil and gas industry. Its output from upstream oil and gas developments did not however exceed 25% of the total national oil and gas production in 2013. SOCAR additionally owns and operates the only oil refinery and gas refinery in Azerbaijan, and manages the domestic oil and gas pipeline system.

---

2 © This information is taken principally from the Country Q&A Guide titled "*Oil and Gas Regulation in Azerbaijan: overview*" authored by Kamil Valiyev and Rena Eminova. The content was first published in the *Energy and Natural Resources Multi-Jurisdictional Guide 2015* and is reproduced with the permission of the publisher, THOMSON REUTERS (PROFESSIONAL) UK LIMITED via PLSclear.

Whilst privatisation of these segments of the oil and gas industry is not at this time planned by the Azerbaijani Government, SOCAR has actively engaged with local and foreign private investors in joint ventures for the provision of domestic oil and gas industry services.

International energy companies participate in the development of oil and gas fields alongside SOCAR's subsidiaries, predominantly under production sharing agreements ("**PSAs**") negotiated and signed with the Government of Azerbaijan represented by SOCAR. Since Azerbaijan's independence in 1991 from the USSR, the Government of Azerbaijan has executed approximately 23 PSAs (including with the Company).

3.3 Government policy objectives

The Government of Azerbaijan has established a favourable investment environment for foreign investors, the result of which has seen billions of dollars of direct investments in the oil and gas industry in Azerbaijan. In 2014, more than US $5 billion of foreign direct investment was made into the oil and gas sector according to official data. The Azerbaijani Government has also been investing in the industry through the use of state funds.

The State Programme for the Development of Fuel and Energy Sector (2005 to 2015) sets out the main objectives of the Azerbaijani Government in this area, and as approved by the Presidential Order No. 635 dated 14 February 2005, the objectives are as follows:

(a) Determining the minimum directions of the development of the fuel and energy complex of the Republic of Azerbaijan in accordance with modern requirements.

(b) Carrying out relevant scientific, technical and organisational measures to increase the efficiency of the industry.

(c) Ensuring the implementation of advanced technological measures for the production, processing, transportation, storage, accounting and consumption of energy resources.

(d) Establishing a fair competition environment in the fuel/energy sector.

(e) Attracting more investments for the development of the fuel/energy complex.

(f) Ensuring ecological security in the fuel/energy complex.

(g) Ensuring the due payments of consumed fuel/energy resources (that is, electric energy and natural gas).

3.4 Regulation of the oil and gas industry in Azerbaijan

Azerbaijan does not have an independent public regulator for the oil and gas sector. The Ministry of Energy carries out the regulatory functions in accordance with regulations approved by Presidential decree and other relevant laws and Presidential acts. The Ministry of Energy is required to supervise, and is entitled to issue special permits for, the exploration, exploitation, production, processing, storage, transportation, distribution and use of energy materials and products, which includes oil and natural gas. Additionally, upon authorisation by the President of Azerbaijan, the Ministry of Energy is able to prepare, negotiate and execute agreements for the production of hydrocarbon resources, (for example, PSAs) and also supervise their implementation.

SOCAR has an active role in the oil and gas sector to represent the interests of the state. Through the preparation, negotiation and implementation of the vast majority of PSAs, SOCAR has been acting as a sole representative of the Azerbaijani Government, and substantially contributing to the regulation of foreign oil and gas companies' activities in Azerbaijan. SOCAR also actively participates in the Azerbaijani Government's policy-making activities in the oil and gas sector.

There are other ministries and state bodies in Azerbaijan that indirectly regulate the oil and gas industry. These include:

(a) **Ministry of Emergency Situations**. This ministry has authority for ensuring technical safety at any oil and gas operations that are potentially hazardous. This ministry issues licenses for certain activities in the oil and gas industry, such as for the installation and operation of natural gas facilities, and the construction of drilling facilities. This ministry also carries out the certification of installations and equipment which are used in potentially hazardous objects in the oil and gas industry.

(b) **Ministry of the Labor and Social Protection of Population**. This ministry has the overall responsibility to ensure compliance with the requirements in relation to the health and protection of labor by employers who are engaged in oil and gas activities.

(c) **Ministry of Ecology and Natural Resources**. This ministry supervises compliance of oil and gas activities with environmental regulations and standards.

There are numerous laws which regulate oil and gas extraction activities, and which have been adopted since the first years of independence. Additionally, there are two basic regulatory regimes that are applicable to oil and gas exploration and production in Azerbaijan:

(a) Regulatory regime established under the Law on Energy ("**Energy Law**") and implemented through energy contracts.

(b) Ad hoc regimes established by specific PSAs.

Energy Law in Azerbaijan regulates the exploration, extraction, distribution, transportation and storage of oil and gas. In order to engage in these activities, both individuals and legal entities are required to obtain a special permit, and also enter into an energy contract with the Ministry of Energy or SOCAR.

As a general rule, all PSAs which are executed by SOCAR on behalf of the Azerbaijani Government are enacted as laws after being executed. A PSA sets out an ad hoc regulatory regime for oil and gas operations carried out on the specific field which is developed under the PSA. The PSA generally regulates:

(a) the ownership of the oil and gas and assets;

(b) health, safety and environmental compliance;

(c) taxation;

(d) import/export operations; and

(e) any profit sharing mechanisms.

3.5 Rights to oil and gas

The Constitution of the Republic of Azerbaijan states that natural resources belong to the state of Azerbaijan, without prejudice to the rights and interests of any individuals or legal entities. The Energy Law (and subsoil law) provides for the state's exclusive rights of ownership over oil and gas resources.

Rights over land do not involve subsoil rights over oil and gas reserves which are found below the land. The transfer of ownership of oil and gas from the state to private parties is only possible post extraction.

Rights for the exploration, development and production of oil and gas are able to be granted in accordance with the specific type of energy contract, which are awarded to contractors by way of tenders or direct negotiations. Contract such as these are in essence services contracts which are executed between the contractor and the Ministry of Energy or SOCAR. Rights under an energy contract are required to be registered with the Ministry of Energy. Contractors need to also obtain special permits from the Ministry of Energy for engaging in energy activities (including the exploration, development and production of oil and gas). The provisions relating to the protection of environment of contracts for the use of natural resources become effective once approved by the Ministry of Environment and Natural Resources.

Some licensing requirements apply to certain business activities which are associated with oil and gas operations, for example the sale of oil and gas products, the installation and operation of facilities for liquid and natural gas, mining and drilling works and the transportation of dangerous goods (including oil, certain oil products and gas).

Contractors are required to pay specific license fees for engaging in licensable oil and gas activities. The fees can range from AZN150 to AZN11,000. Additionally, payment of taxes is required from contractors and SOCAR in accordance with the tax regime established by the Tax Code of the Republic of Azerbaijan for non-PSA oil and gas activities. In regards to PSA oil and gas activities, certain PSAs will require contractors to pay bonuses to the Government of Azerbaijan which may be conditional on specific events occurring, such as the PSA becoming effective, approval of the development programme, or the production of oil or gas reaching certain levels. Contractors must also pay taxes in accordance with the individual tax regime established under the PSA.

3.6 Restrictions

There are no restrictions set out in the Energy Law for obtaining licenses or entering into energy contracts for private local and foreign companies and individuals. There are however certain restrictions which are set out by the Azerbaijani President. The production and processing of oil, oil products and natural gas is only capable of being conducted by state enterprises and joint stock companies with a controlling state shareholding. It is possible for enterprises and organisations (for example, SOCAR) which are established by a Presidential decree to engage in a business funded by the state (and in other cases specified by law) to engage in such business without obtaining a license.

Contractors must also return the area located outside the disclosed commercial discovery to the state.

Contractors which are producing oil or gas under energy contracts must also sell a certain portion of their production at world market prices to the state on request for domestic consumption needs.

3.7 Transportation by pipeline

The right to develop and operate master energy transportation systems, which includes trunk pipelines, is granted to individuals and legal entities by the execution of an energy contract with the Ministry of Energy or SOCAR.

The requirements for providing gas transportation services by pipelines are set out in the Law on Gas Supply. They are similar to those under the Energy Law.

The energy contract may additionally grant:

(a) the right to build and operate auxiliary infrastructures (for example, for storage);

(b) ownership over such infrastructures; and

(c) the right to transfer the use of infrastructures.

The energy contract is signed for a 20 year term, and can be renewed for ten further years. Export and import of third party gas by pipeline agreements become effective upon their approval by the Cabinet of Ministers pursuant to the Law on Gas Supply.

The Government of Azerbaijan has signed host government agreements (“**HGAs**”) with a consortium of international oil and gas companies for the construction and operation of pipelines which are to be used for the export of oil or gas resources developed together with these companies. The HGAs grant certain absolute and unrestricted rights to investors, in connection with the construction and operation of the pipelines. Additionally, energy agreements on master energy transportation systems have to take into consideration competition among the producer of energy materials (including oil and gas and their products). Third party access is required to be granted if the pipeline is operated on an exclusive basis. The oil and gas producer operating the pipeline on an exclusive basis has to grant unused pipeline capacity to interested third parties. Transportation of the third party's oil or gas must not however hinder the transportation of oil and gas owned by the pipeline owner/operator.

3.8 Health, safety and the environment

(a) Health and safety

There are several laws and other normative acts that regulate the health and safety requirements applying to upstream and midstream oil and gas activities. The main laws of note are the:

(i) *Law on Technical Safety of the Republic of Azerbaijan, dated 8 June 1999.*

This law defines oil and gas production facilities and trunk pipelines for the transportation of oil and gas as potentially hazardous production facilities. The law imposes certain obligations on both individuals and legal entities who are exploiting such facilities. These persons are required to comply with all legislation, legal acts, standards, requirements and orders related to the exploitation of these facilities. Users of such facilities are by default liable for any accident or incident which takes place on the facilities.

(ii) *Law on Protection of the Environment of the Republic of Azerbaijan, dated 2 November 1999.*

This law aims to ensure environmental safety, prevent negative impact of business and other activities on nature and protect biodiversity. This law sets out the rights and obligations of state authorities and businesses, and environmental requirements in relation to the use of natural resources and the development, construction and exploitation of energy and transportation facilities.

(iii) *Labour Code, dated 1 February 1999.*

The Labour Code regulates the occupational health and safety regime in the workplace. The Labour Code provides that the owner of the enterprise and employer are responsible directly for compliance with both occupational health and safety rules and regulations. Owners and contractors (as employers) of upstream or midstream facilities may be held liable for violations of the rules and any injuries of employees resulting from non-compliance with the rules.

Most PSAs set out specific health and environmental standards. Contractors are required to develop jointly with SOCAR and the Ministry of Environment and Natural Resources safety and environmental protection standards and practices to regulate their operations. Contractors are required to comply with general Azerbaijani laws and regulations on public health, safety and environment, to the extent that these laws and regulations are no more stringent than international standards.

Under HGAs, participants to the pipeline projects are required to comply with the health and safety standards that are customary in international petroleum transportation projects.

(b) Environmental impact assessments (EIAs)

On receipt of an application to enter into an energy contract, the Ministry of Energy or SOCAR is required to arrange an environmental impact assessment ("**EIA**") of the operations over the relevant territory. The EIA has to be completed by independent experts.

The EIA is mandatory for PSAs. The terms of the EIA are agreed with the Azerbaijani Government as part of the development programme, and serve as a basis for developing the environmental protection standards which apply to the specific upstream project. As a general rule, EIAs under PSAs are completed by independent international consultants. The conclusions of EIAs which are conducted under PSAs must be acceptable to SOCAR.

There are no statutory period limitations for the implementation of EIAs and the procedures for the implementation of EIAs are not regulated.

Costs which are associated with the EIAs are covered by the applicant to the energy contract.

(c) **Environmental permits**

Individual entrepreneurs and companies which are engaged in the upstream and midstream oil and gas sector are subject to a variety of environmental requirements that relate to (inter alia) air emissions, water use and disposal, and waste management. The main law in this field is the Law on Protection of Environment.

Businesses have to secure the below listed approvals and permits before they can commence oil and gas operations:

(i) a positive opinion of the Ministry of Environment and Natural Resources issued as a result of the EIA;

(ii) an environmental examination conducted by the Ministry of Environment and Natural Resources; and

(iii) an environmental passport and passport of hazardous wastes approved by the Ministry of Environment and Natural Resources.

3.9 **Decommissioning**

Contractors are required to transfer the installations and equipment to the state or new contractors free of charge, in accordance with the energy contract. The energy contract has to include a rehabilitation plan which is approved by SOCAR or the Ministry of Energy, which the contractor is required to implement before the contract expires. In addition, the contractor has to establish a rehabilitation fund to finance the works. The contractor is only able to remove or dispose of its fixed assets after completion of the rehabilitation works.

PSAs regulate the decommissioning obligations of contractors in further detail. The PSAs contain provisions on the abandonment fund that contractors have to establish to finance the abandonment of fixed assets used for oil and gas operations, and set out the rules on the contractors’ abandonment plan.

3.10 **Sale and trade**

There are separate wholesale and consumer markets. Whilst there are no statutory limitations, wholesale and retail sales of oil and gas remain largely under the control of the SOCAR and are regulated by the Azerbaijani Government. The Azerbaijani Government has been considering liberalising and privatising the retail oil and gas market in recent years.

The general export regime is applicable to the export of oil and gas that is not produced under PSAs. Oil and gas which is produced under PSAs are exempt from foreign trade regulations that prohibit, limit and restrict import and export, and country of origin rules.

A contractor is able to freely determine market prices, unless the legislation provides otherwise. Oil and natural gas are however included in the list of goods, services and works that are subject to price regulation by the Azerbaijani Government. The Tariff Council is responsible for price regulation in Azerbaijan and regulates prices of:

(a) domestic wholesale and retail sales of oil, oil products and gas;

(b) services relating to the transportation of oil and natural gas through pipelines; and

(c) services for the storage and distribution of natural gas.

Prices of oil and gas sold in foreign markets are not however regulated.

Unlike other oil producing countries, no royalties are paid in Azerbaijan. However, a tax on profits of between 25% and 32% is typically payable.

3.11 Enforcement of regulation

In accordance with the Energy Law, the Ministry of Energy is able to adopt mandatory rules that apply to the oil and gas industry. Additionally, the Ministry can issue specific orders to oil and gas producers relating to the implementation and enforcement of relevant legislation. The Ministry can impose administrative sanctions in cases of violations of oil and gas legislation and also has the power to suspend the special permits and licences issued to businesses which are engaged in oil and gas activities. Additionally, the Ministry can impose fines for failure to comply with obligations which are set out in the relevant laws.

Regulators' decisions can be contested that do not comply with substantive or procedural requirements before the administrative-economic court or a district (city) court. Appeals are required to be made within 30 days from the date of official notification of the decision to the appellant.

PART 10

INFORMATION ON THE GROUP

Investors should read this Part 10: "Information on the Group" in conjunction with the more detailed information contained in this Document, including the financial and other information appearing in Part 14: "Operating and Financial Review".

1 Introduction

The Company is an international oil and gas exploration, development and production company incorporated and domiciled in Canada with operations in Argentina, Italy and Azerbaijan.

The Group's principal assets in Argentina, Italy and Azerbaijan are held through: (i) its wholly-owned subsidiaries Ingenieria Petrolera Patagonia Ltd. and Zenith Aran Oil Company, which hold, respectively, 100% working interests in two oil fields, Alberto and Don Ernesto in Argentina, and an 80% interest in three petroleum producing onshore fields in Azerbaijan; and (ii) Canoel Italia S.r.l. (in which the Company has a 98.64% shareholding), which hold various working interests in 13 onshore exploration and production properties in Italy, as set out in paragraphs 1.1, 1.2 and 1.3 below.

1.1 Argentina

On 5 February 2010, Zenith established Ingenieria Petrolera del Rio de la Plata S.r.l., a wholly-owned subsidiary of the Company, incorporated in Buenos Aires, Argentina.

On 16 July 2010, Zenith incorporated a wholly-owned US subsidiary, Ingenieria Petrolera Patagonia Ltd., to act as the acquisition vehicle for two US-based companies controlling Central Patagonia S.r.l., the owner of two producing oil fields. The acquisitions completed on 22 July 2010. The Group now owns a 100% working interest in the two oil fields, Alberto and Don Ernesto, covering approximately 3.0 square kilometres (approximately 740 contiguous acres). These fields are located in the Patagonia region of Southern Argentina, and specifically in the San Jorge basin, Chubut Province, about 12 miles west of the city of Comodoro Rivadavia and 1,000 miles south of Buenos Aires.

Since the Company's acquisition of the two fields through to the reporting period prior to a storage tank collapse at a government facility in August 2015 (which significantly disrupted production), peak production from the fields reached 169 barrels of oil per day.

Oil production in Argentina remained broadly consistent in 2014 and for the first half of 2015, but production volumes decreased when storage tanks at a nearby government facility collapsed in August 2015. The collapse of the tanks created an environmental disaster and, in order to clean-up the oil spill and mitigate the consequences, the state operator was forced to order the shutdown of transmission pipelines and suspend production and waterflood operations. As a consequence, the Company's production was restricted. Management is making every effort to deal with the consequences of this.

1.2 Italy

In Italy, the Group owns various working interests in 13 onshore exploration and production properties and two gas concessions currently shut-in. The two gas concessions (Canaldente and Torrente Vulgano) were assigned to Canoel Italia S.r.l. from the Ministry of Economic Development in 2011, whilst the other onshore exploration and production properties were acquired from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc, in June 2013. The concessions have various expiration dates.

The production and exploration properties comprise the following concessions, permits and applications, further details of which are set out below:

(a) 6 operated onshore gas production concessions:

(i) Torrente Cigno (45% working interest)

(ii) Masseria Grottavecchia (20% working interest)

(iii) San Teodoro (100% working interest)

(iv) Misano Adriatico (100% working interest)

(v) Sant'Andrea (40% working interest)

(vi) Masseria Petrilli (50% working interest)

(b) 3 non-operated onshore gas production concessions:

(i) Masseria Acquasalsa (8.8% working interest)

(ii) Lucera (13.6% working interest)

(iii) San Mauro (18% working interest)

(c) 1 operated exploration permit:

(i) Montalbano (57.15% working interest)

(d) 1 non-operated exploration permit

(i) Colle dei Nidi (25% working interest)

(e) 2 exploration applications:

(i) Serra dei Gatti (100% working interest)

(ii) Villa Carbone (50% working interest)

Torrente Cigno

Description The Group owns a 45% working interest in the Torrente Cigno gas and condensate concession covering approximately 38,163 acres and located onshore in southern Italy, along the Adriatic coast. From 1 October 2015, the Company has used the gas produced to generate electricity which is sold directly to the national electrical grid in Italy.

As at September 2016, production at Torrente Cigno (from one well) was approximately 450 Mscf/d.

Expiry date This concession is scheduled to expire in 2019, with the intention that it be renewed to align with the Company's additional development plans.

Masseria Grottavecchia

Description The Group owns a 20% working interest in the Masseria Grottavecchia gas concession covering approximately 13,160 acres and located onshore in southern Italy, along the Adriatic coast.

This concession is not currently producing, but development plans are in progress.

Expiry date This concession is scheduled to expire in 2018, with the intention that it be renewed to align with the Company's future development plans.

San Teodoro

Description The Group owns a 100% working interest in the San Teodoro gas concession covering approximately 14,640 acres and located onshore in southern Italy, along the Adriatic coast.

This concession is not currently producing, but development plans are in progress.

Expiry date This concession is scheduled to expire in 2019, with the intention that it be renewed to align with the Company's future development plans.

Misano Adriatico

Description The Group owns a 100% working interest in the Misano Adriatico gas concession covering approximately 18,610 acres and located onshore in central Italy, along the Adriatic coast.

As at September 2016, production at Misano Adriatico (from one well) was approximately 45 Mscf/d.

Expiry date This concession is scheduled to expire in 2020, with the intention that it be renewed to align with the Company's additional development plans.

Sant'Andrea

Description The Group owns a 40% working interest in the Sant'Andrea gas concession covering approximately 40,605 acres and located onshore in northern Italy, along the Adriatic coast.

This concession is not currently producing.

Expiry date This concession is scheduled to expire in 2022, with the intention that it be renewed to align with the Company's additional development plans.

Masseria Petrilli

Description The Group owns a 50% working interest in the Masseria Petrilli gas concession covering approximately 29,227 acres and is located onshore in southern Italy, along the Adriatic coast.

This concession is not currently producing.

Expiry date This concession is scheduled to expire in 2020, with the intention that it be renewed to align with the Company's additional development plans.

Masseria Acquasalsa

Description The Group owns a 8.8% working interest in the Masseria Acquasalsa gas concession covering approximately 10,200 acres and located onshore in southern Italy, along the Adriatic coast.

As at September 2016, production at Masseria Acquasalsa (from one well) was temporarily interrupted for required maintenance.

Expiry date This concession was due to expire during 2014 but the Group has requested an additional ten year extension which is currently being evaluated by the competent authorities.

Lucera

Description The Group owns a 13.6% working interest in the Lucera gas concession covering approximately 38,514 acres and located onshore in southern Italy, along the Adriatic coast.

As at September 2016, production at Lucera (from two wells) was approximately 531 Mscf/d.

Expiry date This concession is scheduled to expire in 2017, but the Group will apply for an additional ten year extension in view of the remaining recoverable reserves.

San Mauro

Description The Group owns a 18% working interest in the San Mauro gas concession covering approximately 6,257 acres and located onshore in southern Italy, along the Adriatic coast.

As at September 2016, production at San Mauro (from one well) was approximately 180 Mscf/d.

Expiry date This concession is scheduled to expire in 2020, with the intention that it be renewed to align with the Company's additional development plans.

1.3 **Azerbaijan – REDPSA**

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

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

As a part of the Handover, an inventory of equipment and material was prepared and the volumes of oil in the pipelines and tanks were recorded. Any revenues related to the existing oil as at the date of Handover will be allocated to SOCAR. As the Azerbaijani Operations are currently producing oil, they have generated revenues for the Company since the completion of the transfer to Aran Oil.

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

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

Aran Oil operates under the terms of the REDPSA. Revenue will be divided between cost recovery petroleum and profit petroleum. Aran Oil will first recover all operating costs from revenues after deduction of compensatory petroleum as explained below. Capital costs will then be recovered from a maximum of 50% of the remaining revenue. Any unrecovered costs can be carried forward to be recovered in future years. The remaining revenue is divided between Aran Oil and SOCAR according to an R-factor model. The R-factor varies as the ratio between Aran Oil's profits and capital costs vary. Aran Oil's share of profit petroleum varies between 25% and 80%.

Zenith Aran will pay 100% of all of Aran Oil's costs (including SOA's 20%) until the end of the four consecutive calendar quarters where production has been more than two times the average rate in 2015. The carried costs will be recovered from SOA's profit petroleum after that time. It is expected that the additional carried costs can be taken from Zenith Aran's profit petroleum.

Zenith Aran and SOA have an obligation to:

1. within one year following the Effective Date, deliver at no charge to SOCAR 5% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter; and

2. commencing on the first anniversary of the Effective Date, start delivering, at no charge to SOCAR, 15% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter,

until the amount delivered is the equivalent of 45,000 tons of "compensatory" crude oil to SOCAR ("**Compensatory Petroleum**").

The balance of production remaining after (i) the relevant Compensatory Petroleum has been delivered and (ii) quantities to enable recovery of certain operating and capital costs are deducted, is calculated on a quarterly basis and is shared between SOCAR and the Contractor according to a detailed "R factor" model (see above).

Rehabilitation and production programme

As is typical with other onshore projects in Azerbaijan, the contract area to which the REDPSA relates includes areas where existing production needs to be improved (the "**Contract Rehabilitation Area**") and where new production needs to be developed (the "**Contract Exploration Area**"). Zenith Aran and SOA will have different obligations in respect of each area.

Pursuant to the terms of the REDPSA, within 150 days of the Effective Date, Zenith Aran and SOA are required to prepare and submit a rehabilitation and production programme to achieve an average daily crude oil production from the Contract Rehabilitation Area of 1.5 times the average daily production rate in 2015 by no later than two years following SOCAR's approval of the programme. The rehabilitation and production programme is currently being finalised by the Company's technical team and the Directors anticipate that Zenith Aran and SOA will submit the programme to SOCAR imminently (in any event within the 150 day timeframe). The rehabilitation and production programme required pursuant to the REDPSA will be based principally on recommendations contained in the CPR. As described in more detail in the CPR and in paragraph 7 below, the programme will include plans to workover a total of 44 existing wells in Azerbaijan which are currently inactive or produce at low rates and it is estimated that 10 wells will be worked over in 2017, 11 wells in 2018, 15 wells in 2019 and eight wells in 2020. The rehabilitation and production programme remains subject to finalisation and agreement with SOCAR in accordance with the terms of the REDPSA.

SOCAR has 60 days to approve the rehabilitation and production programme and is required, pursuant to the terms of the REDPSA, not to unreasonably withhold its approval. If SOCAR requests changes to the rehabilitation and production programme, the parties must discuss a revised rehabilitation and production programme. If the rehabilitation and production programme has not been approved by SOCAR within 60 days of the commencement of such discussions, Zenith Aran and SOA can elect to have the matter resolved through the arbitration procedure set out in the REDPSA. Based on its review of the technical records for the Contract Rehabilitation Area and site visits conducted by Zenith Aran, the Company is confident that it will be able to present a rehabilitation and production programme that is approved by SOCAR. The development and production period for the Contract Rehabilitation Area is 25 years from the date of SOCAR's approval of the rehabilitation and production programme which is anticipated to occur in early 2017. A possible additional five year extension may be approved by SOCAR.

Minimum exploration work programme

Pursuant to the terms of the REDPSA, within the four year period commencing on the Effective Date, being 11 August 2016, Zenith Aran and SOA will be required to carry out a minimum exploration work programme in the Contract Exploration Area including the following work:

1. to carry out an upper section site investigation survey to ensure a safe and environmentally sound base for drilling, and to shoot, process and interpret two-dimensional seismic or a minimum of sixty square kilometres of three-dimensional seismic (this will be decided by the Company at the relevant time), in the specified exploration area; and

2. to drill a well to a depth of five thousand metres from the ground surface, or to the depth of 50 metres below the top of the Upper Cretaceous formation, whichever occurs first, and evaluate the drilled well using an appropriate logging and testing programme.

The Company will fund the minimum exploration work programme using its accumulated cash flows. The REDPSA does not contain any milestones in respect of the minimum exploration work programme.

The development and production period for the contract exploration area is 25 years from the date of SOCAR's approval of the development programme.

Further details of the REDPSA are contained in paragraph 25.5 of Part 18: "*Additional Information*".

2 Group Structure

The Company acts as the holding company of the Group. The Company has the following subsidiaries:

Name of Subsidiary	Place of incorporation and registered office	Proportion of ownership interest	Principal activity
Ingenieria Petrolera Patagonia Ltd	Denver, Colorado, USA 36 South 18th Ave Suite D Brighton Colorado CO 80601	100%	Sub-holding
Canoel Italia S.r.l.	Genova, Italy Genova Via XXV Aprile 12°	98.64%[(1)]	Gas, electricity and condensate production
Petrolera Patagonia Corporation Inc. ("**PPC**")	Denver, Colorado, USA 202 South Minnesota St. Carson City Nevada NV 89703	100%	Sub-holding
PP Holding Inc. ("**PPH**")	Denver, Colorado, USA 202 South Minnesota St. Carson City Nevada NV 89703	100%	Sub-holding
Petrolera Patagonia S.r.l.	Buenos Aires, Argentina Arenales 955, 2º piso 1061 C.A.B.A. Buenos Aires, Argentina	100% (95% owned subsidiary of PPC and 5% held by PPH)	Oil production
Ingenieria Petrolera del Rio de la Plata S.r.l.	Buenos Aires, Argentina Arenales 955, 2º piso 1061 C.A.B.A. Buenos Aires, Argentina	100%	Oil services
Zenith Aran Oil Company Limited[(2)]	British Virgin Islands PO Box 957 Offshore Incorporations Centre Road Town Tortola, British Virgin Islands	100%	Oil production

Name of Subsidiary	Place of incorporation and registered office	Proportion of ownership interest	Principal activity
Aran Oil Operating Company Limited(3)	British Virgin Islands Nemours Chambers Road Town Tortola, British Virgin Islands	80%	Oil production

Notes:

(1) The holder of the remaining 1.36% in the capital of Canoel Italia S.r.l. is Luigi Regis Milano.

(2) Zenith Aran Oil Company Limited has registered a branch in Baku, Azerbaijan.

(3) Aran Oil Operating Company Limited has registered a branch in Baku, Azerbaijan.

3 Key Strengths

The Directors believe that the Group has the following key strengths:

Significant assets in highly prospective regions:

- Significant assets in well-known oil and gas regions.
- Operator in Azerbaijan, one of the world's most established energy producers.
- Interests in reasonably stable countries with a long history of hydrocarbon extraction.
- Dynamic and adaptable company structure.
- Know-how and new technologies applied in old and marginal fields.
- Attention to environmental and social aspects, employing local personnel in all operations.

Proven track record of operational success in exploration and appraisal activities

The Group has a strong and committed management team that has substantial relevant industry knowledge and a proven track record of operational success. The Company believes that its management team has favourably positioned the Company to successfully implement its growth strategy and productivity initiatives regarding its existing projects. The Company also intends to appoint a Chief Operating Officer in the next few months and to appoint further executive directors in due course.

The Company focusses on maximising the value of its portfolio and has a track record of active management in order to control its balance sheet exposure, access relevant skills and to grow its interests. Since the Company's acquisition of the Don Ernesto and Alberto oil fields in Argentina through to the reporting period prior to a storage tank collapse at a government facility in August 2015 (which significantly disrupted production), peak production from the fields reached 169 barrels of oil per day. There have also been several workovers and a modernisation of the Company's facilities in the last two years.

Management's extensive international connections

The Company has the ability to capitalise on management's extensive international connections to continue accretive growth through acquisitions in order to create value through exploration and appraisal success and operational strengths.

Diversified Portfolio

The Group has established a diversified portfolio of interests in three different regions.

"Marginal field strategy"

The Company adopts a "marginal field strategy" in both Italy and Argentina, which enables it to "unlock" onshore fields that have been shut-in, thereby releasing significant residual reserves. The Company focuses on commercialisation and monetisation of existing oil and gas reserves and targets countries with an extensive history of production. This strategy requires expertise in optimising residual reserves and decommissioning of aged facilities. "Marginal fields" are often available from national companies due to an allocation of capital to higher impact (and higher cost) projects. Historically, the upfront costs of such acquisitions are moderate.

Remediation and capital improvement programme

Zenith's strategy is designed to reinvest an agreed portion of local cash flow back into remediation and capital improvements in order to enhance the Group's operations.

4 Strategy

Current business strategy and future opportunities

Zenith's business plan is to grow through international acquisitions and to increase the production and reserves from its international inventory of oil and gas projects. The Company's operations are targeted at areas with advantageous access points for its exploration activities with a reasonably stable economic and business environment. The Company's primary operations are in:

(a) Argentina, where the Company owns a 100% interest in two producing oil fields;

(b) Italy, where the Company owns various interests in 13 onshore exploration and production assets and two shut-in gas permits; and

(c) Azerbaijan, where the Company has an 80% participating interest in three petroleum producing onshore fields.

The successful completion of the handover process and transfer of operatorship of the three petroleum producing fields in Azerbaijan (together one of the largest onshore oil and gas concessions in Azerbaijan by cumulative acreage) to Aran Oil Company occurred on 11 August 2016. Zenith intends to grow the current base of production in Azerbaijan through investments in technology, enhanced production techniques, significant infill development opportunities and future step out exploration. The Company considers its presence in Azerbaijan to be a key strategic asset and it is committed to developing its interest in the concession.

Strategically, the Company intends to develop a balanced portfolio of short, medium and long-term opportunities. To accomplish its objectives, the Company intends to seek innovative ways to unlock value by leveraging its assets and subsidiaries, build strong partnerships, participate in bid rounds to gain low cost exposure to favourable opportunities, execute accretive mergers and acquisitions to further strengthen its short and near-term portfolio, focus on growth in value and reserves potential, leverage its management team's international oil and gas expertise to add accretive production and reserves, and develop and create and build on strategic alliances with national oil companies and large proven operators.

In reviewing potential drilling or acquisition opportunities, the Company will consider the following criteria:

(a) risk capital to secure or evaluate the opportunity;

(b) the potential return of the project, if successful;

(c) the likelihood of success; and

(d) the risk-related return versus cost of capital.

Become a primarily self-funding business and maintain financial flexibility

From a financial perspective, the Group's focus is on achieving and maintaining a robust, well-funded business with the financial flexibility to fund high-impact exploration, appraisal and development programmes in order to realise the full potential of its oil and gas resources.

The Group may look to broaden its sources of funding while ensuring an appropriate capital structure.

Increase Reserves through further exploration and appraisal

In terms of exploration objectives, the Company's focus is on unlocking oil and gas reserves still unexploited in old and marginal oil and gas fields through the use of new technology. This approach allows the Company to invest in the oil and gas sector with lower associated geological risks than in a completely new environment, and very often in a country with good facilities available. Formally defined exploration wells are often located in an already well-known structure where the presence of hydrocarbons has been tested in several other wells in the area.

5 Argentine Operations

The Alberto and Don Ernesto fields produce oil from multiple Cretaceous sand completions below a shallow glauconitic marine formation. As of 31 August 2016, total proved developed producing oil reserves of 36 MSTB have been estimated for the Cretaceous sands zone in seven producing wells by the Competent Person. Incremental probable developed producing oil reserves of 45 MSTB have been estimated for 13 producing wells and additional probable developed non-producing oil reserves of 410 MSTB have been assigned for 11 currently suspended wells for which workovers are planned.

In all, the Company's share of estimated total proved plus probable oil net reserves was assessed at 447,000 bbls of oil as of 31 August 2016 by the Competent Person.

The Company will continue to focus on its refurbishment programme in respect of certain wells located at the properties acquired in 2010 with the intention of increasing production and cash flows. It is anticipated that, with modest capital expenditure, increased production can be achieved which will be immediately cash generative (due to the stability of the operating and maintenance costs of the wells). Initially, it is intended that GBP £38,885 (USD $48,000) of the Net Proceeds will be spent on three specific workover projects at the properties.

In early 2016, oil pricing was set by Argentina's regulators with a floor of US $54.90 per barrel for Escalante crude which represents a premium when compared to recent WTI prices which, at the end of January 2016, were approximately US $34. In light of this change to the price environment, Zenith's subsidiary, Petrolera Patagonia, will continue with its budgeted capital expenditures in Argentina.

6 Italian Operations

On 18 November 2010, Zenith established Canoel Italia S.r.l., a wholly-owned subsidiary of the Company, incorporated in Italy. On 5 June 2013, the Company completed the acquisition of various interests in 13 Italian producing and exploration properties. As described above, the assets comprise six operated onshore gas production concessions, three non-operated onshore gas production concessions, an operated exploration permit, a non-operated exploration permit and two exploration permit applications.

On 1 October 2015, the Company acquired co-generation equipment and facilities from the owner of a 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 from the gas produced by the Masseria Vincelli 1 well which it sells it directly into the national energy grid in Italy. The natural gas extracted from the Masseria Vincelli 1 property which is not suitable for transportation in the national grid pipeline is currently produced to generate electricity with the use of gas engines.

As at 31 August 2016, the Competent Person estimated reserves at the Group's most commercially significant concessions in Italy as follows:

Lucera

- Total gross proved developed producing conventional non-associated marketable gas reserves of 826 MMscf for the two producing gas wells at the concession.
- Gross probable additional developed producing conventional non-associated marketable gas reserves of 197 MMscf for the same two wells.

Misano Adriatico

- Total gross proved developed producing conventional non-associated marketable gas reserves of 112 MMscf for the one producing gas well at the concession.

- Gross probable additional developed producing conventional non-associated marketable gas reserves of 61 MMscf for the same well.

San Mauro

- Total gross proved developed producing conventional non-associated marketable gas reserves of 558 MMscf for the one producing gas well at the concession.
- Gross probable additional developed producing conventional non-associated marketable gas reserves of 391 MMscf have been estimated for the same well.

Torrente Cigno

- Total gross proved developed producing conventional non-associated marketable gas reserves of 1,259 MMscf and 19 Mbbl of condensate for the one producing gas well at the concession (Masseria Vincelli 1).
- Gross probable additional developed producing conventional non-associated marketable gas reserves of 1,439 MMscf and 22 Mbbl of condensate for the same well.
- Probable undeveloped gas reserved of 13,413 MMscf and 202 Mbbl of condensate for an offset horizontal well location (Masseria Vincelli 2).

Overall, the Company's share of estimated total proved plus probable natural gas net reserves at the Lucera, Misano Adriatico, San Mauro and Torrente Cigno concessions was assessed at 16,594 Mmscf and condensate net reserves were assessed at 109 Mbbls as of 31 August 2016 by the Competent Person.

The Company's technical and geological team in Italy has also conducted in-depth geological, geophysical and engineering evaluations at some of the Group's Italian properties not reported on in the CPR (the Torrente Vulgano, San Teodoro, Masseria Petrilli and Masseria Grottavecchia concessions) in order to identify and plan appropriate development activities at the relevant concessions. The team's work included a geophysical, geographical and infrastructure classification exercise and an assessment of the data relating to reserves and production capacity contained in independent studies previously conducted. Documentation held in the team's archive (for example maps, studies and seismic data received from the previous owners of the relevant concessions) has been analysed and interpreted and information has also been drawn from studies prepared by competent independent third parties. Specific software was also used to assist the process. Once precise geological conclusions and reserve valuations were finalised, the Company was able to make a thorough assessment of the best economic and structural solutions to facilitate positive cash flow generation from the concessions. Models developed by the Company have enabled it to analyse the investment required and calculate economic and financial return at the concessions, and this has made it possible to identify key operational priorities.

In particular, the Company has key development plans at two concessions, San Teodoro and Masseria Petrilli. In the wholly-owned San Teodoro concession (currently not in production), projects are ongoing to enable drilling for gas at the "Macchia Nuova" structure. It is also intended that improvements of facilities at San Teodoro will be completed by the tie-in of new dehydration equipment. While the field has been capable of production, a lack of regional infrastructure limited additional expansion in the past. In December 2014, Zenith reached an agreement with a successful retail marketer of natural gas within Italy to handle production from this field, which is anticipated to restart production in June 2017. Production from the existing wellbore is expected to commence at 3,000 cubic meters/day (106 mcf/d or 18 boed), increasing the Company's current daily production in Italy by 25%, to over 100 boepd. Costs of the refurbishment and commencing production at the concession are anticipated to be approximately €300,000 (GBP 256,050) and will be paid through an equipment leasing facility. The Company intends to allocate GBP £128,025 (€150,000) from the Net Proceeds towards the development plans at this concession. The Company is also evaluating the possibility of drilling a deviated well into the crestal area of the Torrente Salsola structure at the Masseria Petrilli concession (where the Company has a 50% working interest) in order to unlock residual reserves. The plans at both concessions envisage a limited amount of capital expenditure in order to increase Zenith's gas production in Italy and to achieve a good level of profitability. The Company has an ambitious programme to enhance the Italian daily gas production rate in the Puglia Region by 100% through a technical programme employing additional workovers.

In addition, submission of extensive environmental reports relating to the commencement of production of the Torrente Vulgano gas property has been completed and preliminary approval has been received. The Company is now looking to commence production at these wells following receipt of final approval. Production of natural gas from the Torrente Vulgano property is now expected to commence in the next three years.

Separately, the Company is planning to implement an innovative plan for the exploitation of the Traetta 1 well in the Masseria Grottavecchia concession (where the Company has a 20% working interest) through the sweetening of the produced gas so that it can be sold through the national pipeline grid. This development plan was recently submitted to the relevant ministry in Italy, for its review and approval. The Company estimates that approval should be received in April 2017.

7 Azerbaijani Operations

At present, the Azerbaijani Operations produce approximately 295 barrels of crude oil per day, although they have produced much larger quantities previously (Source: SOCAR). Gas is also produced, but in low quantities and is used at the sites. The Company, which is free to sell/export oil without restrictions, sells its oil through the Marketing and Operations Department of SOCAR ("**SOCARMO**"). A related commission of 1% of total sales is payable to SOCARMO.

Between 2017 and 2020, the Company plans to workover a total of 44 existing wells in Azerbaijan which are currently inactive or produce at low rates (< 5 STB/d) to bring rates up to 10 to 15 STB/d per well using improved technology, non damaging fluids and optimised treatments. It is estimated that 10 wells will be worked over in 2017, 11 wells in 2018, 15 wells in 2019 and eight wells in 2020. The Company intends to allocate GBP £60,757 (USD $75,000) of the Net Proceeds to go towards the costs associated with three of the 10 wells to be worked over in 2017 (it being intended that the workovers of the other 7 wells will be funded by local cash flows) and also expects to use a total of GBP £40,505 (USD $50,000) of the Net Proceeds to acquire two submersible pumps for use at its Azerbaijani oil fields.

The Company intends to purchase one modern workover rig to optimise the completion and workover of the wells. This programme will begin by using the existing workover rig in the field. Additional equipment may be leased or contracted as required to optimise the field redevelopment.

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

The Company intends to acquire (for a cost of approximately US $10,000,000 (GBP £8,101,000)) a modern drilling rig capable of drilling 4,500m to carry out a fifteen year drilling programme. It is estimated that five new wells will be drilled in 2019 and ten wells in each year thereafter until the anticipated drilling programme is completed in 2033 (with associated costs of approximately US $671,000,000 (GBP £543,577,100)).

During the first four years of the REDPSA it is estimated that US $1,500,000 (GBP £1,215,150) will be spent upgrading the gathering system and central facilities in Azerbaijan to improve safety, efficiency and handle higher production rates. During the same period, 39 active wells currently producing at marginal rates will be worked over at estimated costs ranging from US $25,000 (GBP £20,253) to US $32,000 (GBP £25,923) each.

It is anticipated that in 2019 five shut-in wells completed in the Maykop formation will be worked over to control sand production at an estimated cost of US $150,000 (GBP £121,515) each, and returned to production at a total rate of 200 STB/d.

It is envisaged that development drilling will commence in 2019 and continue until 2033. It has been estimated that each well with proved reserves will cost approximately US $4,300,000 (GBP £3,483,430). This cost will include the direct cost of materials, fuel, salaries, etc. to drill the well and an allocation for the purchase of the drilling rig, well completion and tie-in. Proved reserves are those reserves that can be estimated, by a competent professional, with a high degree of certainly to be recoverable. Each well in the proved plus probable category is expected to cost approximately US $5,000,000 (GBP £4,050,500). In addition to the costs anticipated for the wells with proved reserves, wells in the proved plus probable category have an additional allocation for periodic leasing or contracting of additional drilling rigs and expansion and modernisation of the field facilities. This category of reserves includes those additional reserves that are less certain to be recovered than proved reserves.

In total, 145 development wells are expected to be drilled, of which 58 of these are anticipated to be horizontal wells.

8 Summary of reserves and resources

The Competent Person has stated the reserves and resources of the assets held by the Group in the CPR included with this Document at the Appendix:

Summary of Company Reserves
September 1, 2016

Combined Properties – Argentina, Azerbaijan and Italy
Zenith Energy Ltd.

		Net To Apraised Interest Reserves					
		Light and Medium Oil MSTB		Sales Gas MMscf		NGL Mbbls	
Description		**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
PROVED							
Proved Developed Producing							
Argentina		36	33	0	0	0	0
Azerbaijan		468	468	0	0	0	0
Italy		0	0	1,584	1,584	9	9
Total Proved Developed Producing		**504**	**501**	**1,584**	**1,584**	**9**	**9**
Proved Undeveloped							
Azerbaijan		3,686	3,686	0	0	0	0
Total Proved Undeveloped		**3,686**	**3,686**	**0**	**0**	**0**	**0**
Total Proved		**4,190**	**4,187**	**1,584**	**1,584**	**9**	**9**
PROBABLE							
Probable Developed Producing							
Argentina	Incr.	45	41	0	0	0	0
Azerbaijan	Incr.	138	138	0	0	0	0
Italy	Incr.	0	0	1,598	1,598	10	10
Total Probable Developed Producing		**183**	**179**	**1,598**	**1,598**	**10**	**10**
Probable Developed Non-Producing							
Argentina		410	373	0	0	0	0
Azerbaijan		890	890	0	0	0	0
Total Probable Developed Non-Producing		**1,300**	**1,263**	**0**	**0**	**0**	**0**
Probable Undeveloped							
Azerbaijan		28,242	28,242	0	0	0	0
Italy		0	0	13,413	13,413	91	91
Total Probable Undeveloped		**28,242**	**28,242**	**13,413**	**13,413**	**91**	**91**
Total Probable		**29,725**	**29,684**	**15,010**	**15,010**	**101**	**101**

	Net To Appraised Interest Reserves					
	Light and Medium Oil MSTB		Sales Gas MMscf		NGL Mbbls	
Description	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
PROVED PLUS PROBABLE						
Argentina	492	447	0	0	0	0
Azerbaijan	33,424	33,424	0	0	0	0
Italy	0	0	16,594	16,594	109	109
Total Proved Plus Probable	**33,915**	**33,871**	**16,594**	**16,594**	**109**	**109**

Notes:

Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

Columns may not add precisely due to accumulative rounding of values throughout the CPR.

9 Dividend policy

The Company is primarily seeking to achieve capital growth for its Shareholders. It is the Board's intention during the current phase of the Company's development to retain future distributable profits from the business, to the extent any are generated, for future operations, expansion and debt repayment, if necessary. As a holding company, the Company will be dependent on dividends paid to it by its subsidiaries.

The Company has never declared or paid any dividends on the Common Shares. At present, there is no intention to declare any dividends in the foreseeable future and a dividend may never be paid. Any decision to declare and pay dividends will be made at the discretion of the Board of Directors and will depend on, among other things, the Group's results of operations, financial condition and solvency and distributable reserves tests imposed by corporate law and such other factors that the Board of Directors may consider relevant.

The Board can give no assurance that it will pay any dividends in the future, nor, if a dividend is paid, what the amount of such dividend will be.

PART 11

DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

1 The Company

The Company was incorporated on 20 September 2007 in accordance with the laws of British Columbia, Canada.

On Admission, the Company will be authorised to issue Preferred Shares (issued in series) and Common Shares. It is intended that the Common Shares will be admitted by the FCA to a Standard Listing on the Official List in accordance with Chapter 14 of the Listing Rules and to trading on the London Stock Exchange's main market for listed securities. Applications will also be made to list the Placing Shares and the Manager Shares on the TSXV in Canada, but the Placing Shares and Manager Shares may not be resold in Canada or to a resident of Canada for a period of four months and one day following Admission.

2 The Directors and Senior Management

The Directors believe the Board comprises a knowledgeable and experienced group of professionals with relevant experience for sourcing, evaluating, structuring and executing the business strategy of the Company. The Board will have full responsibility for its activities.

Details of the Directors, the Proposed Director and the Senior Manager are listed below. The Company intends to appoint a Chief Operating Officer in the next few months and to appoint further executive directors in due course.

<u>Directors</u>

2.1 **Jose Ramon Lopez-Portillo (*Chairman and Non-Executive Director, aged 62*)**

Mr. Lopez-Portillo has been managing Director and then Chairman of the Board since 24 September 2007. He is an economist with a large network of business contacts worldwide, and who previously served as Mexican Permanent Representative in Rome, Italy. Mr. Lopez-Portillo is a leading researcher in the energy security of Mexico and acts as Deputy Minister at Mexico's Planning and Budget Secretariat. Mr. Lopez-Portillo holds a Doctorate degree in Political Sciences and International Relations from the University of Oxford.

2.2 **Andrea Cattaneo Della Volta Cattaneo Adorno (*Director, President and CEO, aged 60*)**

Mr. Cattaneo has been a Director of the Company since 9 December 2008 and has served as President and CEO of the Company since 2009. He is an energy specialist with a focus on emerging countries and has 30 years' experience in advising governments in financial, industrial and energy-related matters. Mr. Cattaneo has strong expertise and experience in structuring and negotiating contracts in the international markets and in particular in the oil industry, and also in the management of oil fields. He also has significant experience in former socialist countries and in 1985 he arranged the first US$ loan to Vietnam, the then third poorest county in the world. Separately, Mr. Cattaneo is a Partner of the Bolsa de Comercio de Buenos Aires (BCBA), the Buenos Aires Stock Exchange and was previously a member of the Business Advisory Council to the Great Tumen Initiative, a United Nations project for regional economic cooperation in Northeast Asia.

2.3 **Luigi Regis Milano (*Director, aged 79*)**

Mr. Regis Milano was appointed as Director of the Company on 24 September 2008 and served as Chief Financial Officer from 28 November 2012 until 7 March 2016. He is also currently Managing Director of the Company's Italian subsidiary, Canoel Italia S.r.l. He has a strong background in petroleum chemistry, having developed an extensive network of relationships within the European and global oil industry over the course of more than 60 years' experience. He has acted as executive director for a large trading company specialising in crude oil and petroleum products, and also as executive director of a large European refinery. He is currently a director and part owner of an Italian oil refinery (and has been since 2000).

2.4 **Dario Ezio Sodero (*Non-Executive Director, aged 75*)**

Mr. Sodero was appointed to the Board on 24 June 2009. As an experienced energy industry executive with 47 years of experience in North America, the Sub-Arctic, North Africa and the Middle East, Mr. Sodero has strong geological, exploration and technical expertise. Mr. Sodero is a director of Rockbridge Resources Inc., a TSXV publicly traded oil and natural gas company, since January 2011, and has formerly acted as director and executive of several other TSX- and TSXV-listed exploration and production companies. Mr. Sodero holds a Doctorate degree in Geology from the University of Turin, Italy.

2.5 **Francesco Mario Giuseppe Salimbeni (*Non-Executive Director, aged 89*)**

Mr. Salimbeni, who is an engineer with over 50 years of experience in technical and management positions, has been a Director of the Company since 16 February 2016. He is an internationally recognised oil recovery specialist and also an advisor and consultant both to the Italian Government and to private enterprises in Italy and abroad for environment, conservation, desalination and waste management. Mr. Salimbeni previously acted as project engineer, project manager and department manager at SNAM PROGETTI S.p.A (which was incorporated into the Saipem S.p.A. group as an offshore projects division in 2008), where he was directly involved in the execution of the basic design, engineering, construction and commissioning of several projects in the area of oil and gas production, transportation, and processing. He subsequently became general manager and then managing director, and was responsible for the negotiation, acquisition, supervision and execution of more than 50 contracts for the supply of grass root refineries all around the world. Separately, Mr. Salimbeni is a member of three professional associations, namely the Italian Order of Professional Engineers, I.D.A., the International Desalination Agency and the European Desalination Society (EDS).

2.6 **Erik Sture Larre (*Non-Executive Director and Chairman of the Audit Committee, aged 54*)**

Mr. Larre has been a Director of the Company since 22 March 2011. Mr. Larre specialises in real estate, banking and finance matters, and also has experience in the oil and gas industry. Mr. Larre has strong business connections internationally and in particular within the Nordic business community. Mr. Larre is a director of several real estate companies around the world and has acquired wide geographical experience in countries in Eastern and Southern Europe and the Middle East. Mr. Larre holds a Master's degree in Civil Engineering from the Polytechnic University of Milan, Italy and speaks six languages.

2.7 **Andrew John Gowdy Morrison (*proposed non-Executive Director, aged 56*)**

Mr. Morrison has background in strategic business development, which combined with technical literacy and an entrepreneurial mind-set has led to a record of commercial delivery across energy and process industries. Mr. Morrison was Chief Executive of Zeta Petroleum PLC, an ASX-listed junior oil and gas exploration and production business with operations based in Romania, where he was recruited to undertake a business turnaround. Mr. Morrison has other valuable experience as chief executive, group director, new business development advisor, independent business development advisor and head of corporate strategy at several energy sector listed Companies. He has a BSc (1st Class) in Chemical Engineering and Fuel Technology from the University of Sheffield, a Diploma in Company Direction from the Institute of Directors, and has published books in the fields of innovation, venturing and strategic business development.

Senior Management

2.8 **Alan Hume (*Chief Financial Officer, aged 57*)**

Alan Hume is a qualified accountant with over 30 years' accounting, business and corporate finance experience in both the energy and construction industries. Mr. Hume has previously been chief financial officer for an AIM listed oil and gas exploration company, for a privately held Canadian oil and gas exploration and production company and for an international construction joint venture in the United Arab Emirates. He also has significant experience in senior finance director and commercial director roles in the oilfield services and power production sectors. Mr. Hume has operated in the UK, US, Norway, Turkey and other European countries, as well as in Southern Africa. He was admitted as a Fellow of the Chartered Institute of Management Accountants in 1999.

3 Independence of the Board

Jose Ramon Lopez-Portillo, Francesco Salimbeni and Dario Sodero are currently deemed "independent" members of the Board. Once appointed as a Director, Andrew Morrison will be considered to be an independent member of the Board.

4 Directors' fees

4.1 For the financial year ending 31 March 2016, the fees payable to the Directors (no fees were payable to the Proposed Director or the Senior Manager) were as follows:

(a) Jose Ramon Lopez-Portillo did not receive any fee;

(b) Andrea Cattaneo received a consulting fee of £162,239;

(c) Luigi Regis Milano received a fee for the position of director of Canoel Italia S.r.l of £31,685 (payable by Canoel Italia S.r.l.);

(d) Dario Sodero received a fee for professional consulting services of £10,119;

(e) Francesco Salimbeni did not receive any fee; and

(f) Erik Larre did not receive any fee.

4.2 In addition:

(a) for the current financial year the other Directors, the Proposed Director and the Senior Manager will be entitled to receive a fee to be determined by the Remuneration Committee following Admission;

(b) On 18 November 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 Option Plan (each Option granted entitles the relevant holder to acquire one Common Share for an exercise price of CAD $0.10 per Common Share and the expiry date of the Options is the date falling five years from the date of grant, being 18 November 2021); and

(c) Alan Hume is entitled to receive a fee of £12,000 per month for the period beginning on 14 September 2016 (when he joined the Company as Chief Financial Officer) and it has been agreed with the Company that this fee will be satisfied on Admission by way of issue of Common Shares in the Company to Mr. Hume (the value of which will be calculated by reference to the Placing Price). Starting from the month following Admission, it has been agreed with the Company that Mr. Hume's remuneration will be satisfied 50% in cash and 50% through the issuance of Common Shares in the capital of the Company.

4.3 All the Directors and the Proposed Director are/will be entitled to be reimbursed by the Company for travel, hotel and other expenses incurred by them in the course of their directors' duties relating to the Company. Further details of the Directors' service agreements and letters of appointment (as the case may be) are set out in Part 18: "*Additional Information*".

5 Strategic decisions

5.1 The Board

The Directors are responsible for carrying out the Company's objectives, setting its business strategy and conducting its overall supervision. Acquisitions, divestment and other strategic decisions will all be considered and determined by the Board.

The Board has established the corporate governance framework of the Company and will have overall responsibility for setting the Company's strategic aims, defining the business plan and strategy and managing the financial and operational resources of the Company. No Shareholder approval will be sought by the Company in relation to transactions following Admission unless it constitutes a reverse takeover under the Listing Rules or is otherwise acquired under applicable law or regulation.

The Board is committed to the highest standards of corporate governance. On and following Admission, the Board will continue to comply with the corporate governance requirements imposed on the Company as a result of the Company's continued listing on the TSXV.

5.2 **Frequency of meetings**

The Board will schedule meetings every two months and will hold additional meetings as and when required. The expectation is that this will result in more than six meetings of the Board each year.

5.3 **Corporate governance**

The Company currently complies with the corporate governance regime applicable to the Company pursuant to the laws of British Columbia and securities law in Canada. Directors are considered to be independent if they have no direct or indirect material relationship with the Company. A "material relationship" is a relationship which could, in the view of the Company's Board of Directors, be reasonably expected to interfere with the exercise of a director's independent judgment.

Management has been delegated the responsibility for meeting defined corporate objectives, implementing approved strategic and operating plans, carrying on the Company's business in the ordinary course, managing cash flow, evaluating new business opportunities, recruiting staff and complying with applicable regulatory requirements. The Board of Directors facilitates its independent supervision over management by reviewing and approving long-term strategic, business and capital plans, material contracts and business transactions, and all debt and equity financing transactions.

The Board has established an audit committee, a remuneration committee and a corporate governance committee with formally delegated duties and responsibilities.

(a) **Audit Committee**

On Admission, the Audit Committee will comprise Jose Ramon Lopez-Portillo, Dario Sodero and Erik Larre and will be chaired by Erik Larre. Once appointed as a Director, Andrew Morrison will be appointed as a member of the Audit Committee. The Audit Committee is expected to meet at least four times a year and otherwise as required. It has responsibility for ensuring that the financial performance of the Company is properly reported on and reviewed, and its role includes monitoring the integrity of the financial statements of the Company (including annual and interim accounts and results announcements), reviewing the effectiveness of the Company's internal control review function and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors and advising on the appointment of external auditors. The Audit Committee will have unrestricted access to the Company's external auditors. The ultimate responsibility for reviewing and approving the annual reports and accounts and the interim reports remains with the Board. The Audit Committee will give due consideration to laws and regulations and the requirements of the Listing Rules. The Company has an Audit Committee Charter.

(b) **Remuneration Committee**

On Admission, the Remuneration Committee will comprise Jose Ramon Lopez-Portillo, Luigi Regis Milano and Francesco Salimbeni and will be chaired by Luigi Regis Milano. It is expected to meet not less than twice a year and at such other times as required. The Remuneration Committee has responsibility for determining the Company's policy on the remuneration packages of the Company's chief executive, the chairman, the executive and non-executive directors, the Company secretary and other senior executives. The Remuneration Committee also has responsibility for (i) recommending to the Board a compensation policy for directors and executives and monitoring its implementation; (ii) approving and recommending to the Board and the Company's Shareholders the total individual remuneration package of the chairman, each executive and non-executive director and the chief executive officer (including bonuses, incentive payments and share options or other share awards); and (iii) approving and recommending to the Board the total individual remuneration package of all other senior executives (including bonuses, incentive payments and share options or other share awards), in each case within the terms of the Company's remuneration policy and in consultation with the chairman of the Board and/or the chief executive officer. No Director or manager may be involved in any discussions as to their own remuneration.

(c) **Corporate Governance Committee**

On Admission, the Corporate Governance Committee will comprise Andrea Cattaneo, Dario Sodero and Jose Ramon Lopez-Portillo and will be chaired by Dario Sodero. Once appointed as a Director, Andrew Morrison will be appointed as a member of the Corporate Governance Committee. It is expected to meet not less than once a year and at such other times as required. The Corporate Governance Committee will ensure that the Company has in place sufficient procedures, resources and controls to enable it to comply with its continuing obligations as a company admitted to the Official List. The Corporate Governance Committee will also monitor the Company's procedures to approve (a) announcements to ensure that the information disclosed by the Company is timely, accurate, comprehensive and relevant to the business of the Company and (b) any share dealings by directors or employees or announcements made by the Company to ensure compliance with the Company's policies, the Disclosure Guidance and Transparency Rules and the Listing Rules and such other regulations to which the Company is subject from time to time.

5.4 **Anti-bribery and corruption policy**

The Company has adopted an anti-bribery and corruption policy and also implemented appropriate procedures to ensure that the Board, employees and consultants comply with the UK Bribery Act 2010.

5.5 **Media policy**

On Admission, the Company intends to adopt a media policy to ensure that the information disclosed by the Company is timely, accurate, comprehensive and relevant to the business of the Company. Adherence to this policy is intended to provide an effective and efficient framework to facilitate the timely dissemination of information. The media policy will apply to all employees of the Company and its subsidiaries and divisions as well as the members of its Board of Directors.

Andrea Cattaneo is designated as the Company's principal media contact and Company spokesperson. Depending on the situation, an individual external to the Group (e.g. an external technical consultant) may be asked to be a spokesperson on a particular issue due to their knowledge, experience and technical expertise.

6 Listing

Subject to eligibility, the Directors may, in future, seek to transfer the Company from a Standard Listing to either a Premium Listing or other appropriate listing venue, based on the track record of the company or business it acquires, subject to fulfilling the relevant eligibility criteria at the time. However, in addition to or in lieu of a Premium Listing, the Company may determine to seek a listing on another stock exchange. Following such a Premium Listing, the Company would comply with the continuing obligations contained within the Listing Rules and the Disclosure Guidance and Transparency Rules in the same manner as any other company with a Premium Listing.

The Company is applying for a Standard Listing of the Common Shares on the Official List and a Standard Listing offers less protection to investors than would otherwise be the case with a Premium Listing on the Official List. Further details on the consequences of a Standard Listing are set out in Part 4: " ***Consequences of a Standard Listing*** **" of this Document.**

7 Other Agreements

The Company has also entered into a number of other agreements for the provision of registrar and other services more fully described in Part 18: "*Additional Information*".

PART 12

THE PLACING

1 Description of the Placing

Under the Placing, 33,322,143 Placing Shares have been conditionally subscribed for by investors at the Placing Price of £0.07 per new Common Share, which is expected to raise gross proceeds of £2,332,550, subject to commissions and other estimated fees and expenses of approximately £316,628. The Placing Shares will be issued credited as fully paid and will, on Admission, rank *pari passu* in all respects with all other Common Shares including the right to receive all dividends or other distributions declared, made or paid after Admission. The Placing, Admission and issue of Manager Shares will result in the Existing Shares being diluted so as to constitute 65.51% of the Enlarged Common Shares in Issue. The Directors have received irrevocable undertakings from investors to subscribe for 33,322,143 Common Shares in aggregate at the Placing Price. The undertakings are conditional only on Admission. The Placing is not underwritten.

The Placing Shares have been made available primarily to institutional investors in the UK. In accordance with Listing Rule 14.3, at Admission, at least 25% of the Common Shares of the listed class will be in public hands (as defined in the Listing Rules).

Completion of the Placing will be announced via a regulatory news service on Admission, which is expected to take place at 8.00 a.m. on 11 January 2017.

2 Allocation

Allocations under the Placing have been determined by the Company following receipt of indications of interest from prospective investors. A number of factors were considered in deciding the basis of allocation under the Placing, including the level and nature of the demand for the Placing Shares and the objective of establishing an investor profile consistent with the long-term objective of the Company. The Company has notified investors of their allocations.

All Placing Shares issued pursuant to the Placing will be issued, payable in full, at the Placing Price.

The Common Shares issued pursuant to the Placing will be issued in registered form. It is expected that the Common Shares will be issued pursuant to the Placing on 11 January 2017.

3 Dealing arrangements

Application has been made to the UK Listing Authority for all the Common Shares to be listed on the Official List and application has been made to the London Stock Exchange for the Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

It is expected that Admission will take place and unconditional dealings in the Common Shares will commence on the London Stock Exchange at 8.00 a.m. on 11 January 2017. This date and time may change.

It is intended that settlement of Shares allocated to investors will take place by means of crediting Depositary Interests to relevant CREST stock accounts on Admission. When admitted to trading, the Shares will be registered with ISIN number CA98936C1068, SEDOL number BYNXNZ9 and TIDM code ZEN.

4 CREST

CREST is the system for paperless settlement of trades in listed securities operated by Euroclear. CREST allows securities to be transferred from one person's CREST account to another's without the need to use share certificates or written instruments of transfer.

Application has been made for the Depositary Interests to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Depositary Interests following Admission may take place within the CREST System if any Shareholder (as applicable) so wishes. CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so. An investor applying for Placing Shares in the Placing may elect to receive Placing Shares in uncertificated form in the form of Depositary Interests if the investor is a system member (as defined in the CREST Regulations) in relation to CREST.

5 Use of Proceeds

The estimated Net Proceeds of the Placing are approximately £2,015,922. The total expenses incurred (or to be incurred) by the Company in connection with Admission and the Placing are approximately £316,628.

The Company's intention is to use the Net Proceeds as follows (in order of priority):

Use	**Amount (GBP £)**
Repayment to Jiu Feng Investment Hong Kong Limited	567,070
Argentina workover programmes	38,885
Italy workover programmes	128,025
Azerbaijan – facility and systems upgrades	40,505
Azerbaijan – workover programmes	60,757
Working capital	1,180,680
Total	2,015,922

The payment of £567,070 (USD $700,000) to Jiu Feng Investment Hong Kong Limited relates to the partial repayment of a USD $2,050,000 loan facility made to the Company.

The Company has a refurbishment programme in place for certain wells located at its Argentinian properties (acquired in 2010). It is intended that the GBP £38,885 (USD $48,000) attributed above to workover programmes in Argentina will be spent on three specific workover projects at the properties.

The Company has development plans at various of its concessions in Italy. However, specifically, the Company intends to spend the GBP £128,025 (€150,000) attributed above to workover programmes on development plans at its San Teodoro gas field concession.

Facility and systems upgrades envisaged in Azerbaijan (to which GBP £40,505 (USD $50,000) is attributed above) relate to the intended purchase by the Company of two submersible pumps for use at its oil fields in Azerbaijan. The Company also intends to allocate GBP £60,757 (USD $75,000) of the Net Proceeds to its workover programme in Azerbaijan (towards the costs associated with three of the 10 wells to be worked over in Azerbaijan in 2017).

The Company is seeking Admission to enable it to raise funds to be applied as described above, improve liquidity in the market for Common Shares, enhance the Company's profile and enable it to access equity finance required to continue its expansion. In addition, the Directors believe a presence in London, with its geographical and time zone locations in the middle of the Group's main centres of operation, will assist the Directors in the effective running of the business.

PART 13

SELECTED FINANCIAL INFORMATION

The selected financial information relating to the Group set out below has been extracted, without material adjustment, from the audited financial statements contained in Part 16: "Historical Financial Information". The selected financial information below should be read in conjunction with the whole of this Document.

Part A Selected financial information

1. Administrative Expenses

General and administrative expenses for the three years ended 31 March are composed of the following:

	Year ended 31 March		
	2014	**2015**	**2016**
	CAD $'000	**CAD $'000**	**CAD $'000**
Professional fees	**1,086**	**940**	**1,119**
External Audit Remuneration fees	110	115	114
External Audit related services	22	68	40
Reserve report fees	107	80	136
Legal fees	189	182	224
Accountancy fee	124	87	90
Consultancy	195	202	213
Other fees	339	206	302
Office	**484**	**716**	**568**
Employee compensation cost	304	564	433
Office rental	52	55	55
Other expenses	128	97	80
Administrative	**297**	**457**	**503**
Administrative services	201	258	338
Taxes	43	49	12
Other expenses	53	150	153
Salaries and benefits	**293**	**482**	**433**
Consulting fees	136	235	381
Bonus	153	200	–
Other expenses	4	47	52
Travel	**220**	**100**	**475**
Other expenses	**–**	**–**	**32**
Transaction costs	**–**	**–**	**36**
Foreign exchange	**482**	**254**	**(717)**
TOTAL	2,862	2,949	2,449

2. Business combination

1) On 5 June 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties (the "Assets") from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc (collectively, "MOG") after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership.

The Company paid MOG a nominal sum of EUR 100 (CAD $136) for the acquisition of MOG's working interests in the Assets and has assumed the liability for future plugging, abandonment and site remediation costs associated with the Assets. At the same time, the Company received a cash payment of EUR 1,250,000 (CAD $1,701k) as MOG's contribution towards future costs.

The Company also received an initial advance of EUR 104,000 (CAD $142k), for a portion of the revenue MOG received from the Assets during the period between the 24 August 2012 the acquisition agreement date and 5 June 2013, the acquisition completion date. The amount was net of allowable operating costs, agreed capital expenditure associated with the Assets and certain deposits for future capital expenditures.

The acquisition of Assets was accounted for as a business combination using the acquisition method of accounting as follows:

Fair value of net assets acquired	**CAD $'000**
Cash	1,843
Trade and other receivables	402
Development & production ("D&P") assets	15,217
Foreign currency translation	(7)
Decommissioning obligation	(1,119)
Deferred tax	(3,776)
Gain on business combination	(12,193)
	367
Consideration:	
Cash	–
Pre-acquisition capital expenditures	367
	367

The estimated value of the D&P assets acquired was determined using both internal estimates and an independent reserve evaluation based on oil and gas reserves discounted at 15%.

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

As the cost of the acquisition was less than the fair value of the net assets acquired, the Company recognised a CAD $12,193k gain on the business combination in the 2014 consolidated statement of comprehensive income.

On 7 June 2013, the day immediately following the acquisition date, the decommissioning obligation assumed was re-measured using a long-term risk-free rate based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The result was a CAD $4,622k increase in the decommissioning obligation associated with the acquired assets and the recognition of a CAD $4,622k measurement adjustment in the 2014 consolidated statement of income (loss) and comprehensive income (loss).

Costs related to the acquisition totalling CAD $234k were incurred and charged to the statement of comprehensive income during year ended 31 March 2014. During the period from 5 June 2013 to 31 March 2014, the acquisition attributed revenues of CAD $902k and net income of CAD $6,896k.

If the business combination, as described above, had occurred on 1 April 2013, the Company estimates that the revenue would have increased by approximately CAD $180k and consolidated net income and comprehensive income would have decreased by approximately CAD $12k. This pro forma information is not necessarily indicative of results had the acquisition occurred on 1 April 2013.

2) On 1 October 2015, the Company acquired a co-generation plant and assumed certain liabilities for a plant employee from a third party for total consideration of EUR 449k (CAD $666k), of which EUR 401k (CAD $550k) was financed in the form of a loan payable to the seller (Note 15) and EUR 48k (CAD $71k) was offset against trade and other receivables due from the seller. The loan payable is secured by the co-generation plant and bears interest at 3.5% per annum and is repayable in 30 monthly payments of principal and interest until 31 March 2018.

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

Fair value of net assets acquired	**CAD $'000**
Co-generation plant (D&P assets)	708
Decommissioning obligation	(11)
Trade and other payables	(31)
	666
Consideration:	
Euro loan payable (Note 15)	595
Trade and other receivables	71
	666

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

On 2 October 2015, the day immediately following the acquisition date, the decommissioning obligation assumed was re-measured using a long-term risk-free rate based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The result was a CAD $32k increase in the decommissioning obligation associated with the acquired assets and the recognition of a CAD $32k measurement adjustment in the 31 March 2016 consolidated statement of loss and comprehensive loss.

Costs related to acquisition were CAD $36k and charged to income during the year ended 31 March 2016. During the period from 1 October 2015 to 31 March 2016, the acquisition attributed revenues of CAD $262k and net income of CAD $179k for the period, which is included in the 31 March 2016 consolidated statement of loss and comprehensive loss.

If the business combination, as described above, had occurred on 1 April 2015, the Company estimates that the revenue would have increased by approximately CAD $243k and consolidated net loss and comprehensive loss would have decreased by approximately CAD $174k. This pro forma information is not necessarily indicative of results had the acquisition occurred on 1 April 2015.

3. Restatement of 31 March 2014 Consolidated Financial Statements

Management identified the following errors related to the 31 March 2014 consolidated financial statements which were corrected retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amounts are expressed in thousand CAD$:

a) The Company used a spot-rate rather than a credit-adjusted rate in the calculation of the fair value of the decommissioning obligation of the Company's Italian assets on the acquisition date. The restatement of the Company's March 31, 2014 consolidated financial statements for this error resulted in a CAD $918k increase in property and equipment, a CAD $7,581k reduction in decommissioning obligation, a CAD $2,337k increase in deferred tax liability, a CAD $327k reduction in accumulated other comprehensive loss and a CAD $5,835k reduction of deficit related to a corresponding increase in the gain recognised on the acquisition.

b) The Company did not include certain pre-acquisition capital expenditures related to the Italian assets in the business combination. The inclusion of these pre-acquisition capital expenditures in the business combination resulted in a CAD $390k decrease in property and equipment (CAD $24k relates to foreign currency translation), a CAD $97k decrease in deferred tax liability, a CAD $28k increase in accumulated other comprehensive loss and a CAD $265k increase in deficit related to a CAD $5k decrease in depletion expense, a CAD $266k decrease in the gain recognised on the acquisition and a CAD $4k reduction in the recovery of income taxes.

c) Based on a change in the discount rate used in the fair value measurement of the decommissioning obligation on the date of acquisition to a long-term risk-free rate based on the expected timing of cash flows of the decommissioning obligation under IAS 37, there was a CAD $4,815k increase in the decommissioning obligation associated with the acquired assets (comprised of a CAD $4,622k measurement adjustment and CAD $193k of foreign exchange) and a CAD $1,271k decrease in the deferred tax liability offset by the recognition of a corresponding CAD $4,622k measurement adjustment, a CAD $1,271k increase in the deferred tax recovery and CAD $193k decrease in exchange differences on translation of foreign operations in the consolidated statements of income (loss) and comprehensive income (loss).

d) The Company miscalculated the year end decommissioning obligation which, combined with the impact a revision to the long-term risk free rate, resulted in a CAD $2,212k reduction in property and equipment, a CAD $3,349k reduction in decommissioning obligation, a CAD $122k increase in deferred tax liability, a $1,125k reduction in accumulated other comprehensive loss and a CAD $110k increase in deficit related to corresponding changes in depletion, accretion and deferred tax expense.

The Company corrected the above errors retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" as presented in the 31 March 2015 consolidated financial statements, and shown in Part 16: "*Historical Financial Information*".

4. Property and equipment

	D&P Assets CAD $'000
Carrying amount at 31 March 2013	**4,012**
Additions	332
Acquired in business combination	15,217
Disposals	–
Depreciation	(784)
Impairment	–
Decommissioning obligation	(84)
Exchange difference on translation of a foreign operation	560
Carrying amount at 31 March 2014	**19,253**
Additions	1,171
Acquired in business combination	–
Disposals	–
Depreciation	(668)
Impairment	–
Decommissioning obligation	(1,487)
Exchange difference on translation of a foreign operation	(1,576)
Carrying amount at 31 March 2015	**16,693**
Additions	313
Acquired in business combination	709
Disposals	
Depreciation	(332)
Impairment	(5,025)
Decommissioning obligation	2,131
Exchange difference on translation of a foreign operation	109
Carrying amount at 31 March 2016	**14,598**

5. Share Capital

Zenith is authorised to issue an unlimited number of Common Shares, of which 43,594,406 were issued as at 31 March 2016. Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of this Document.

Issued

	Number of common shares	Amount CAD $'000
Balance – 31 March 2013	**8,188,429**	**6,556**
Non-brokered unit private placement (i)	750,000	150
Fair value of warrants (i)	–	(93)
Non-brokered unit private placement (ii)	400,000	100
Shares issued for services (iii)	313,610	60
Share exchange (iv)	1,600,000	412
Share issue costs	–	(33)
Balance – 31 March 2014	**11,252,039**	**7,152**
Non-brokered unit private placement (vi)	15,529,984	2,329
Fair value of warrants (vi)	–	(1,090)
Conversion of convertible notes (vi)	2,510,058	540
Share issue costs	–	(181)
Fair value of warrants (vi)	–	(63)
Balance – 31 March 2015	**29,292,081**	**8,687**
Conversion of convertible notes (vii)	882,640	110
Non-brokered unit private placement (viii)	2,700,000	270
Fair value of warrants (viii)	–	(46)
Non-brokered unit private placement (ix)	4,214,125	337
Fair value of warrants (ix)	–	(107)
Non-brokered unit private placement (x)	5,780,688	463
Fair value of warrants (ix)	–	(181)
Settlement of debt (xi)	724,872	67
Share issue costs (x)	–	(22)
Balance – 31 March 2016	**43,594,406**	**9,578**

6. Financial assets at fair value through profit and loss

Financial assets	**2014 CAD $'000**	**2015 CAD $'000**	**2016 CAD $'000**
Equity securities	378	34	8
Bonds	–	203	–
Total	378	237	8

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

The bonds relates to investments in equity instruments that do not have a quoted market price in an active market and cannot be reliably measured; in which case this investment is measured at cost.

7. Loans and Notes payable

Loans and Notes payable	**2014 CAD $'000**	**2015 CAD $'000**	**2016 CAD $'000**
Notes payable – current	374	200	–
Loan payable – current	1,888	2,167	3,210
Loan payable – non-current	378	433	674
Total	**2,640**	**2,800**	**3,884**

The notes payable were previously secured by a mortgage over the oil properties in Argentina (this mortgage no longer exists) and bear interest at 11% per annum.

On 20 January 2011, the Company obtained a loan from a private lender for US $2million. The loan was to mature in January 2013, when it was extended. The loan was extended for an additional six months to July 2013. The loan is unsecured and bears interest at the fixed US prime rate of 3.25% plus 6.75%. The Company has agreed to grant security over additional oil and natural gas assets acquired in Argentina, if acquired using the loan proceeds. Subject to regulatory approval, the lender has the right to participate in a portion of the profit from the eventual sale of any such property. This loan remains unpaid and has been subject to numerous amendments.

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

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

On 1 October 2015, the Company acquired a co-generation plant (Note 6) from a third party of which EUR 401k (CAD $595k) of the purchase price is in the form of a loan payable to the seller. The loan payable is secured by the co-generation plant and bears interest at 3.5% and is repayable in 30 monthly payments of principal and interest until 31 March 2018.

8. Convertible Notes

Convertible Notes	**Debt component CAD $'000**	**Derivative liability CAD $'000**	**Face value CAD $'000**
Balance – 31 March 2013	**1,017**	**57**	**1,159**
Change in fair value	–	(56)	–
Accretion	105	–	–
Foreign exchange	144	–	191
Balance – 31 March 2014	**1,266**	**1**	**1,350**
Modifications	(775)	774	–
Conversion	(332)	(102)	(540)
Change in fair value	–	(514)	–
Accretion	419	–	–
Foreign exchange	4	–	1
Balance – 31 March 2015	**582**	**159**	**811**
Modifications	–	221	–
Conversion	(101)	(23)	(111)
Change in fair value	–	–	–
Accretion	187	–	–
Foreign exchange	28	–	31
Balance – 31 March 2016	**697**	**357**	**731**

9. Decommissioning obligation

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

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Balance – beginning of year	**1,283**	**7,277**	**5,779**
Business combination (Note 6)	1,119	–	11
Measurement adjustment (Note 6)	4,622	–	–
Change in estimate	(84)	(1,487)	2,163
Accretion	298	557	288
Foreign currency translation	39	(568)	(344)
Balance – end of year	**7,277**	**5,779**	**7,897**

The provision has been made by estimating the decommissioning cost at current prices using existing technology.

10. Capital management

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to explore and develop its projects to provide returns for shareholders and benefits for other stakeholders. The Company manages its working capital deficiency, long-term debt, and shareholders' deficit as capital.

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Working capital deficiency	4,273	3,407	6,709
Long-term debt	378	1,016	1,237
Shareholders' equity	5,575	4,289	(2,278)

Cash flow from the Company's operations will be needed in the near term to finance the operations and repay vendor loans.

The Company's principal sources of funds will remain profit on hydrocarbon sales supplemented by debt and equity issuances.

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

Part B Selected key pro forma financial information

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

Set out below is an unaudited pro forma statement of net assets of the Company as at 30 September 2016 (the "Pro Forma Financial Information").

The Pro Forma Financial Information has been prepared on the basis set out in the notes below to illustrate the effect on the net assets of the Company had the Placing and Admission of the Company on the London Stock Exchange occurred on 5 January 2017. It has been prepared for illustrative purposes only.

Because of its nature, the Pro Forma Financial Information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position. It is based on the unaudited interim balance sheet of the Company as at 30 September 2016, which is reproduced in Part 16: "*Historical Financial Information*" of this Document.

Users should read the whole of this Document and not rely solely on the summarised financial information contained in this Part 13, Part B: "*Selected key pro forma financial information – Unaudited Pro Forma Statement of Net Assets*".

The report on the Pro Forma Financial Information is set out in Part 13, Part B: "*Selected key pro forma financial information – Unaudited Pro Forma Statement of Net Assets*" of this Document.

Unaudited pro-forma statement of net assets

	Company net assets as of 30 September 16 Note 1 CAD$000's	Adjustment Note 2 CAD$000's	Adjustment Note 3 CAD$000's	Adjustment Note 4 CAD$000's	Unaudited pro-forma net assets of the Company CAD$000's
ASSETS					
Non-current assets					
Property and equipment	1,066,801	–	–	–	1,066,801
Other receivables	167	–	–	–	167
	1,066,968	–	–	–	1,066,968
Current Assets					
Inventory	317	–	–	–	317
Trade and other receivables	1,547	–	–	–	1,547
Financial Instruments	353	–	–	–	353
Cash and cash equivalents	126	329	–	2,404	2,859
	2,343	329	–	2,404	5,076
TOTAL ASSETS	**1,069,311**	**329**	**–**	**2,404**	**1,072,044**

	Company net assets as of 30 September 16 Note 1 CAD$000's	Adjustment Note 2 CAD$000's	Adjustment Note 3 CAD$000's	Adjustment Note 4 CAD$000's	Unaudited pro-forma net assets of the Company CAD$000's
LIABILITIES					
Non-current liabilities					
Loans	2,665	–	–	–	2,665
Convertible loans	887	–	–	–	887
Decommissioning provision	9,793	–	–	–	9,793
Deferred Consideration payable	287,044	–	–	–	287,044
Deferred taxation	153,928	–	–	–	153,928
Total non-current liabilities	454,317	–	–	–	454,317
Current liabilities					
Trade and other payables	4,033	–	525	(525)	4,033
Oil share agreement	1,039	–	–	–	1,039
Loans	1,503	–	–	(941)	562
Deferred Consideration payable	502	–	–	–	502
Convertible Loans	612	–	–	–	612
Total current liabilities	7,689	–	525	(1,466)	6,748
NET ASSETS	**607,305**	**329**	**(525)**	**3,870**	**610,979**

Notes:

1. The financial information relating to the Company has been extracted without adjustment from the unaudited interim financial information set out in Part 16: "*Historical Financial Information*" of this Document.
2. The CAD$329k (£197k) adjustment represents the placement of 2,745,062 shares at CAD$0.12 per share that was completed by the Company on 7 November 2016. This fund raising resulted in a cash increase of CAD$329k (£197k).
3. The CAD$525k (£317k) adjustment represents the costs incurred in connection with the admission and the placing.
4. The CAD$3,870k (£2,333k) adjustment represents the placing of 33,322,143 shares at £0.07 per share that will take place concurrently with the admission to the London Stock Exchange. This fund raising will result in a cash increase of CAD$2,404k (£1,449k), net of costs incurred in connection with the admission and the placing of CAD$525k (£317k) and partial loan repayment of CAD$941k (US$700k). Concurrently with the placing and admission, Alan Hume will be issued 668,571 common shares in satisfaction of his fees in respect of work carried out for the Company prior to admission.
5. The Pro Forma Financial Information excludes an unaudited pro forma statement of results on the basis that the adjustment above has no effect on the results for the period ended 30 September 2016.
6. The Pro Forma Financial Information does not reflect any changes in the trading position of the Company or any other changes arising from other transactions, since 30 September 2016. There are no other significant changes to the issuer's financial condition and operating results, other than those disclosed.
7. The Pro Forma Financial Information does not constitute financial statements.

REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

PKF

Accountants &
business advisers

The Directors
ZENITH ENERGY LTD.
Suite 150, 15th Floor
Bankers Court, 850- 2nd St. SW
Calgary AB, T2P 0RB

5 January 2017

Dear Sirs

Introduction

We report on the unaudited pro forma statement of net assets as at 30th September 2016 (the "Pro Forma Financial Information") set out in Part 13, Part B: "*Selected key pro forma financial information – Unaudited Pro Forma Statement of Net Assets*" of the Zenith Energy Ltd. (the "Company") prospectus (the "Document") dated 5 January 2017, which has been prepared on the basis described within notes 1 to 7 above, for illustrative purposes only, to provide information about how the Placing and Admission might affect the net assets presented on the basis of the accounting policies adopted by the Company in preparing the financial information for the six months period ended 30 September 2016. This report is required by Annex I, item 20.2 of Commission Regulation (EC) N 809/2004 and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Pro-Forma Financial Information in accordance with Annex I, item 20.2 and Annex II, items 1 to 6 of Commission Regulation (EC) N 809/2004.

It is our responsibility to form an opinion, in accordance with Annex I, item 20.2 of Commission Regulation (EC) N 809/2004, as to the proper compilation of the Pro-Forma Financial Information and to report that opinion to you in accordance with Annex II, item 7 of Commission Regulation (EC) N 09/2004.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro-Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Standards of Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro-Forma Financial Information with the Directors.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with reasonable assurance that the Pro-Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Pro-Forma Financial Information has been properly complied on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purpose of Prospectus Rule 5.5.3R, we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Document in compliance with Annex I, item 1.2 of Commission Regulation (EC) N 809/2004.

Yours faithfully

PKF Littlejohn LLP
Reporting Accountants

PART 14

OPERATING AND FINANCIAL REVIEW

This Part 14 summarises the significant factors and events affecting the results of operations and financial condition of the Group for the six months ended 30 September 2016, and the comparative period ended 30 September 2015, and the years ended 31 March 2014, 2015 and 2016.

This Part 14 should be read in conjunction with Part 3: "*Presentation of Financial and Other Information*", Part 10: "*Information on the Group*" and Part 16: "*Historical Financial Information*" and the other financial information contained elsewhere in this Document.

Prospective investors should read the entire Document and not just rely on the summary information set out below. The financial information considered in this Part 14 is extracted from the financial information referred to in Part 16: "*Historical Financial Information*".

The following discussion of the Group's results of operations and financial condition contains forward-looking statements that reflect the current view of the Group's management. The Group's actual results could differ materially from those anticipated in any forward-looking statements as a result of the factors discussed below and elsewhere in this Prospectus, particularly under Part 2: "*Risk Factors*" and under paragraph 8 of Part 3: "*Presentation of Financial and Other Information – Forward-looking statements*". Investors should carefully consider the following information, together with the other information contained in this Prospectus.

HISTORICAL OPERATING AND FINANCIAL REVIEW

The following information should be read in conjunction with the financial information in this document, including the notes thereto and the basis of preparation thereof. Prospective investors should read the whole of this document and not rely on the summarised data. Consolidated financial information has been prepared in accordance with IFRS. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Zenith Energy Ltd.'s actual results could differ materially from those expressed or implied by such forward-looking statements as a result of various factors, including those discussed below and elsewhere in this document.

This operating and financial review includes information extracted from:

- the financial information in respect of the years ended 31 March 2014, 2015 and 2016 prepared under IFRS as adopted by the European Union and presented in Canadian dollars, as set out in Part 16 of this Document; and
- the financial information in respect of the six months ended 30 September 2015 and 30 September 2016, prepared under IFRS as adopted by the European Union and presented in Canadian dollars, as set out in Part 16 of this Document.

Principal Activity and Overview

Zenith Energy Ltd. ("Zenith" or "the Company") is an upstream international oil and gas company whose assets are held by its subsidiaries principally in Argentina and Italy. The Company is expanding its asset base through the acquisition of interests in Azerbaijan which completed in August 2016. Its portfolio includes a blend of production, development, appraisal and exploration assets. Zenith's goal is to evaluate and exploit its asset base with a view of creating significant value for its shareholders on a per share basis.

1. Statement of Other Comprehensive Income

Operating results

(Canadian Dollars in thousands except otherwise indicated and except per share amounts)

	6 months ended 30 September		Financial year ended 31 March		
	2015	**2016**	**2014**	**2015**	**2016**
Daily volumes					
Oil (bbls/day)	88	83	137	137	47
Condensate (bbls/day)	3	3	2	3	2
Gas (mcf/day)	353	87	284	388	252
Electricity (mcf/day)	n.a.	202	n.a.	n.a.	81
Total (boe/day)	149	134	186	204	105
Total volumes					
Oil (bbls)	16,047	15,179	50,177	49,896	17,279
Condensate (bbls)	530	459	560	1,013	906
Gas (mcf)	64,541	15,867	103,816	141,772	92,345
Electricity (mcf)	n.a.	36,752	n.a.	n.a.	29,695
Total (boe)	27,334	24,408	68,040	74,538	38,525
Average Oil and gas revenue, net of royalties – per boe ($)					
Oil Argentina($/bbl)	74.78	63.08	57.94	67.37	67.63
Oil Azerbaijan($/bbl)	n.a.	47.03	n.a.	n.a.	n.a.
Condensate ($/bbl)	75.16	52.86	125.08	86.81	69.55
Gas ($/mcf)	4.52	1.13	8.01	6.98	5.05
Electricity($/mcf)	n.a.	7.69	n.a.	n.a.	8.82
Revenue $	1,424	1,060	3,688	4,439	1,960
Cost of Sales $	(1,060)	(1,001)	(7,400)	(2,481)	(2,365)
Gross (Loss)/Profit $	364	71	(3,712)	1,958	(405)
Administrative expenses $	(1,341)	(1,769)	(2,862)	(2,949)	(2,449)
Gain(Impairment) on business acquisition	–	771,189	12,193	–	(5,025)
Operating (Loss)/Profit $	(1,217)	769,464	5,619	(991)	(7,879)

Prior to 1 October 2015, the Company sold its gas volumes from the Torrente Cigno area in Italy for approximately $1.44/mcf to the previous owner of the co-generation plant who then converted the gas to electricity and as a result earned a much higher rate. The Company acquired this plant on 1 October 2015 to improve revenue generation and margins. Although the Company continues to supply its Torrente Cigno gas volumes to the co-generation plant, as plant owner, the Company now earns higher electricity rates on those gas volumes. As a result, information relating to electricity is only shown for FY 2016.

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

The acquisition of the assets in Azerbaijan was reflected in an immediate accretion of the gross revenues of CAD$659k for the period from 11 August to 30 September 2016.

Production, sales and revenues

Argentina

The main assets on which the Company has focused its efforts, are two producing fields, Alberto and Don Ernesto located in the Patagonia region of Southern Argentina, in the San Jorge basin, Chubut Province, about 12 miles West of Comodoro Rivadavia.

The Company's share of estimated total proved plus probable oil reserves were assessed at 545,000 bbls at 31 March 2016 (2015 – 788,000 bbls and 2014 – 734,000 bbls) and current production levels are circa 50,000 barrels per annum. The fall in oil production in FY 2016 was the result of a collapsed oil storage facility. The facility was state owned but as a result of its collapse a shut-in was required to resolve the problems at the facility. Production is expected to recommence in March 2017.

Oil prices in Argentina are derived by formulas set by refineries on an annual basis based on instructions or decrees from the Government of Argentina as crude oil and petroleum products prices in Argentina are capped by the Government of Argentina at variable levels. The price for the oil produced in the Chubut province, called Escalante, decreased from US $67 per bbl for the year to December 2014 and to US $60 per bbl for the year to December 2015. 2016 rates were set at US$54.90 per barrel.

Azerbaijan

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

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

At present, the Azerbaijani Operations produce approximately 295 barrels of crude oil per day, although they have produced much larger quantities previously (Source: SOCAR). Gas is also produced, but in low quantities and is used at the sites.

The Company, which is free to sell/export oil without restrictions, sells its oil through the Marketing and Operations Department of SOCAR ("SOCARMO").

The acquisition of the assets in Azerbaijan was reflected in an immediate accretion of the gross revenues of CAD$659k for the period from 11 August to 30 September 2016

Italy

The assets comprise:

- 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);
- 3 non-operated onshore gas production concessions: Masseria Acquasalsa (8.8% working interest), Lucera (13.6% working interest) and San Mauro (18% working interest);
- an operated exploration permit: Montalbano (57.15% working interest);
- a non operated exploration permit: Colle dei Nidi (25% working interest); and

•	2 exploration permit applications: Serra dei Gatti (100% working interest) and Villa Carbone (50% working interest).

These assets were acquired in 2013 from Medoilgas Italia S.P.A and Medoilgas Civita Limited, subsidiaries of Mediterranean Oil and Gas Plc ("MOG"). Zenith paid a nominal sum of EUR 100 for the acquisition of the working interests (which included the assumption of the liability for future plugging, abandonment and site remediation) and received EUR 1.25 million as a contribution towards future abandonment and remediation costs. A bargain purchase gain arose on this transaction of CAD $6.6 million.

On 29 September 2015 a contract was signed in Italy to acquire, for EUR 470,000, co-generation equipment and facilities, from the current owner of the plant Eneco Trade S.r.l. – Bolzano (Italy), which treats gas from the Masseria Vincelli 1 well in the Torrente Cigno concession. As a result the Company now produces electricity and sells it directly into the national grid, using the gas produced. This acquisition was made to maximise returns, as higher per unit selling prices can be achieved through selling gas converted into electricity for the national grid rather than from pure production.

Sales

			6 months ended 30 September		Year ended 31 March		
Country	**Product**	**Measure**	**2015**	**2016**	**2014**	**2015**	**2016**
Argentina	OIL	Bbls	16,047	1,161	50,177	49,896	17,279
Azerbaijan	OIL	Bbls	–	14,018	–	–	–
Italy	GAS	Mcf	530	459	103,816	141,772	92,345
Italy	Condensate	Bbls	64,451	15,867	560	1,013	906
Italy	Electricity	MWh	–	5,338	–	–	4,393

Argentina Oil production

Oil production in Argentina remained broadly consistent in 2014 and 2015, but production volumes decreased in 2016 due to the collapse of storage tanks in August 2015 at a nearby government facility. The collapse of the tanks created an environmental disaster. In order to clean-up the oil spill and mitigate consequences, the state operator was forced to order the shutdown of transmission pipelines and suspended production and waterflood operations.

As a consequence, the Company's production was severely curtailed by this emergency situation as production was suspended and the Company was unable to transport all the produced oil, which had filled its tanks to capacity, to the port terminal.

The decrease in oil sales in the 6 months ended 30 September 2016 was primarily due to an Argentine industry-wide reduction in oil exports as well as lower domestic consumption in the period. In addition, management is trying to improve oil production following the issues that have arisen over the past few months as a result of the collapse of the storage tanks at a nearby government facility (as described above).

Azerbaijan Oil production

On 16 March 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into the REDPSA with SOCAR and SOA. The REDPSA covers 642 square kilometres which include the active Muradkhanli, Jafarli and Zardab oil fields located in the Lower Kura Region, about 300 kilometres inland from the city of Baku, in Azerbaijan (the "Azerbaijani 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, officially completed on 11 August 2016, when production started under Zenith's name. The Company now has operational control of the Azerbaijani Operations. The transfer of operational control did not involve any interruption of petroleum production operations at the Azerbaijani Operations.

During the period from handover to 30 September 2016 the Company achieved a production of about 275 barrels of oil per day.

Following successful handover on 11 August 2016, production under Zenith ownership commenced at the Azeri operations. Production has been relatively consistent at circa 275 barrels per day during the reporting period resulting in 14,010 bbls for the period and gross revenue of CAD $659k.

Italy Gas Production

Volumes increased between 2014 and 2015 as a result of 2015 being the first full year that the Company controlled the Italian operations. Increases were slightly offset by lower gas prices.

The decrease in gas sales volumes in the financial year to 31 March 2016 was due to a temporary interruption of production at the Torrente Cigno concession for required maintenance during April 2015, a malfunctioning compressor in the Lucera concession which persisted into the second quarter and reduced production to 50% of normal capacity, a temporary interruption in production from the Sant'Andrea well in October 2015 following the expiration of a sales contract and a temporary interruption in production from the Petrilli well in November 2015 due to high pipeline pressure which is expected to be remedied in January 2017.

Italy Condensate Production

The decrease in condensate sales volumes between 2015 and 2016 was due to the stoppages in October and November 2015 and the temporary interruption of production for required maintenance during April 2015 at the Torrente Cigno concession as described above.

Revenues (net of royalties)

	6 months ended 30 September		Financial year ended 31 March		
	CAD$'000	CAD$'000	CAD$'000	CAD$'000	CAD$'000
Revenues ($)	**2015**	**2016**	**2014**	**2015**	**2016**
Oil (Argentina)					
net of royalties	1,092	70	2,786	3,362	1,169
Oil (Azerbaijan)	n.a.	659	n.a.	n.a.	n.a.
Gas (Italy)	292	7	831	989	466
Condensate (Italy)	40	41	71	88	63
Electricity (Italy)	n.a.	283	n.a.	n.a.	262
TOTAL (net of royalties)	**1,424**	**1,060**	**3,688**	**4,439**	**1,960**

Oil

The increase in oil revenue from FY 2014 to FY 2015 can be attributed to:

- Increase in the oil production which is a result of management delivering their stated objectives of improving assets once taking them over. This has been achieved through work overs and improved production techniques; and
- Increase in the average oil price achieved from US $63.92 in FY 2014 to US $74.30 in FY 2015.

The decline in revenues in the year 2016 is a result of lost production due to the collapse of the storage tank (state owned) used by the company, as described above and lower oil prices.

The decrease in oil sales in the first two quarters ended 30 September 2016 was primarily due to an Argentine industry-wide reduction in oil exports as well as lower domestic consumption in the period. In addition, management is trying to improve oil production and mitigate the consequences of the ecological disaster (which, as described above, arose when storage tanks at a nearby government facility collapsed) that occurred in 2015. The negative results were offset by the commencement of production in Azerbaijan on 11 August 2016.

Gas

Gas revenue has increased between 2014 and 2015 as a result of FY 2015 being the first full year of the Italian operations being consolidated into the Group's results. The positive increase in production has not fed directly through to revenue as the price per mcf received for natural gas was lower in the year ended 31 March 2015 (($/mcf 6.98) as compared to the year ended 31 March 2014 ($/mcf 8.01) primarily due to gas sales volumes from Torrente Cigno. From here gas sales are made to the electricity market and therefore earn a lower price. During the year ended 31 March 2015, the proportion of gas sales to the lower-priced electricity market was higher than in the comparative 2014 year. It is a result of this trend that co-generation equipment was purchased in October 2015 to improve these selling prices and overall margins in Italy.

The decrease in gas sales volumes in the year to 31 March 2016 and in the two quarters to 30 September 2016 was due to production interruptions across various sites and sales contracts not being renewed.

Condensate

Condensate revenue has increased between 2014 and 2015 as a result of FY 2015 being the first full year of condensate production but the increase in production volumes has not fed through to revenue due to a decline in condensate prices ($/bbl 125.08 in 2014 vs $/bbl 86.81 in 2015). The fall is a result of the decrease in the base price of Brent crude which is used in the formulas to establish the price of condensate.

The decrease in condensate sales volumes in the year to 31 March 2016 was due to production interruptions.

Electricity

Italian electricity sales began following the acquisition of the co-generation plant in October 2015. Production since October 2015 has remained steady. Production for the six month period ending September 2016 is therefore not comparable with the same six month period in the previous financial year.

Cost of sales

	6 months ended 30 September		Year ended 31 March		
	2015	2016	2014	2015	2016
Production Costs	**CAD$'000**	**CAD$'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
Argentina	(670)	(269)	(1,365)	(1,438)	(1,341)
Azerbaijan	–	(371)	–	–	–
Italy	(196)	(146)	(629)	(375)	(692)
Total	(866)	(785)	(1,994)	(1,813)	(2,033)
Depletion and depreciation	(194)	(204)	(784)	(668)	(332)
Decommissioning charge	–	–	(4,622)	–	–
TOTAL	(1,060)	(989)	(7,400)	(2,481)	(2,365)

	6 months ended 30 September		Financial year ended 31 March		
	2015	2016	2014	2015	2016
Cost of sales CAD $'000	(1,060)	(989)	(7,400)	(2,481)	(2,365)
Total boe	27,334	24,408	68,040	74,538	38,525
Cost of sales per boe CAD$	$38.78	$40.52	$108.76	$33.29	$61.39

Production costs in Argentina have seen a slight increase in 2015 from 2014 as a result of local salary increases of 13% following negotiations between the unions and the Government of Argentina. Well site security costs have also increased during this period due to the increase in the number of producing wells.

Production costs in Argentina have marginally decreased in 2016 as compared to 2015 a result of the management opting to reduce oil production during the fourth quarter ended 31 March 2016 to reduce the variable portion of operating costs.

Production costs in Azerbaijan are related to the period from 11 August, when the handover was completed and the production started, to 30 September 2016. Management have monitored costs closely resulting in cost reductions during the period.

Production costs in Italy declined significantly (30%) in 2015 from 2014. This is a result of operational efficiencies and experience gained since the acquisition of the properties.

Production costs in Italy increased in 2016 from 2015 as a result of the necessary maintenance in the Torrente Cigno, Lucera, Masseria Petrilli and Sant'Andrea gas concessions.

Depletion and depreciation costs decreased in 2015 from 2014 as a result of an increase in expected asset lifespan, and in 2016 from 2015 due to the problems in production in Argentina and Italy as described above.

The acquisition of the Italian assets required an associated decommissioning charge to be booked in 2014 which impacted on Cost of Sales. This was a one off charge.

Gross Profit

	6 months ended 30 September		Financial year ended 31 March		
	2016	**2016**	**2014**	**2015**	**2016**
	CAD$'000	**CAD$'000**	**CAD$'000**	**CAD$'000**	**CAD$'000**
Gross Profit	364	71	(4,097)	1,958	(405)
Gross Profit %	25.6%	7%	(111.1)%	44.1%	(20.66)%

The increase in margins in FY 2015 as compared to FY 2014 is attributable to higher revenues as a result of oil price increases and improved cost efficiencies. Whilst efficiencies have continued to be monitored closely in the year 2016 the falling oil and gas prices and the problems with production in Argentina and Italy as described above have impacted margins.

The gross profit for the 6 months ended 30 September 2016 is lower than the comparative period ended 30 September 2015 due to the increase in expenses relating to the Azerbaijan acquisition, costs relating to the proposed admission to the Official List of the FCA and to trading on the London Stock Exchange's main market for listed securities and an increase in fundraising activities, as well as the decrease in revenues due to the lack of production in Argentina.

Operating expenses

	6 months ended 30 September		Financial year ended 31 March		
	2015	**2016**	**2014**	**2015**	**2016**
	CAD$'000	**CAD$'000**	**CAD$'000**	**CAD$'000**	**CAD$'000**
Administrative expenses					
Professional Fees	(310)	(818)	(1,086)	(940)	(1,119)
Office costs	(358)	(280)	(484)	(716)	(568)
Administrative	(205)	(191)	(297)	(457)	(503)
Salaries and benefits	(244)	(299)	(293)	(482)	(433)
Travel	(224)	(208)	(221)	(100)	(475)
Foreign exchange	–	–	(482)	(254)	717
Transaction costs	–	–	–	–	(36)
Other	–	–	–	–	(32)
Total	(1,341)	(1,796)	(2,863)	(2,949)	(2,449)
Gain(Impairment) on business combination	–	771,189	12,193	–	(5,025)
TOTAL	**(1,341)**	**769,393**	**9,330**	**(2,949)**	**(7,474)**

Office and Administrative costs increased between 2014 and 2015 as a result of the Italian operations coming on board with 2015 being the first full year of ownership of the Italian operations. Salaries increased due to the additional employees acquired with the Italian acquisition and also as a result of an increase in Director bonuses. Administrative expenses, net of foreign exchange, increased from 2015 to 2016 as a result of expenses relating to the Azerbaijan acquisition, costs relating to the proposed admission to the Official List of the FCA and to trading on the London Stock Exchange's main market for listed securities and an increase in fundraising activities.

The gain on business combination in 2014 arose as a result of the assets acquired being fair valued significantly in excess of the nominal consideration paid (EUR 100) and in accordance with IFRS the gain arising is required to be recognised immediately.

In the year to 31 March 2016 an impairment test of the value of the Italian assets was completed. The estimated recoverable amount of the Italian assets at 31 March 2016 was lower than the 31 March 2016 carrying amount resulting in the recognition of an impairment of CAD $5,025,000.

Following the 6 months ended 30 September 2016 the Company has recognised a bargain purchase of CAD $618 million in respect of its acquisition of assets in Azerbaijan.

Relevant details are available in Part 16 "*Historical Financial Information*" ("Unaudited Interim Financial Information for six months ended 30 September 2016 and comparative period (30 September 2015)" – note 5) of this Prospectus.

Profit attributable to equity shareholders

	6 months ended 30 September		**Financial year ended 31 March**		
	2015 CAD$000	**2016 CAD$000**	**2014 CAD$000**	**2015 CAD$000**	**2016 CAD$000**
Operating Profit/(Loss)	(977)	769,464	5,619	(991)	(7,879)
Fair value movements	166	–	25	135	(216)
Gain on sale of marketable securities	–	4	–	–	–
Foreign exchange	97	90	–	–	–
Finance Costs	(503)	(245)	(767)	(1,420)	(1,094)
Profit/(loss) before taxation	(1,217)	769,313	4,877	(2,276)	(9,189)
Taxation	–	(153,044)	1,442	(99)	1,514
Profit/(loss)	(1,217)	616,269	6,319	(2,375)	(7,675)
Earnings per share					
Basic	(0.04)	10.39	0.72	(0.11)	(0.23)
Diluted	(0.04)	6.23	0.72	(0.11)	(0.23)

Fair value movements have arisen as a result of marketable securities and convertible loan notes held. Finance costs relate to loan interest and accretion of the decommissioning obligation and the convertible loans held. Loan interest has remained broadly consistent with the latter two amounts increasing due to the acquisition of the Italian assets and re-negotiating of the convertible loan notes. The tax credit in 2014 and 2016 are non-cash amounts and relate to deferred tax arising as a result of the acquisitions made.

Summary Statements of Cash Flows

	6 months ended 30 September 2015 CAD$000	6 months ended 30 September 2016 CAD$000	Year ended 31 March 2014 CAD $'000	Year ended 31 March 2015 CAD $'000	Year ended 31 March 2016 CAD $'000
Net cash generated from Operating Activities					
Before non-cash working changes	(998)	(1,358)	(1,264)	(681)	(3,372)
Non-Cash working capital changes	(309)	(177)	(539)	47	898
Taxation paid	–	–	–	–	–
	(1,307)	(1,535)	(1,803)	(634)	(2,474)
Investments	(260)	(31)	(332)	(1,170)	(415)
Change in non-cash working capital	24	3	2,408	329	193
Other investing activities	225	11	–	(146)	226
Net proceeds from issue of share capital	270	1,116	217	2,148	1,050
Loan and bond financing	825	427	–	–	972
Repayment of notes payable	(204)	–	(87)	(275)	(204)
Foreign exchange effect on cash held in foreign currencies	13	(3)	(39)	(27)	(146)
Change in Cash and Cash equivalent	(414)	(12)	364	225	(798)
Cash and Cash equivalents – Beginning of period	936	138	347	711	936
Cash and Cash equivalents – End of period	522	126	711	936	138

Cash flow from operating activities

Over the past 3 years operating activities have resulted in cash outflows. These cash outflows decreased between 2014 and 2015 as result of improved oil prices and 2015 being the first full year of the Group owning the Italian assets. Operating cash outflows increased in 2016 due to the problems in Argentina and Italy that have impacted margins. Changes in non-cash working capital principally reflect increases and decreases in trade and other receivables and trade and other payables associated with the timing of work programmes and oil and gas sales.

The cash level for the 6 months ended 30 September 2016 is lower than the comparative period ended 30 September 2015 due to the increase in expenses relating to the Azerbaijan acquisition, costs relating to the proposed admission to the Official List of the FCA and to trading on the London Stock Exchange's main market for listed securities and an increase in fundraising activities, as well as the decrease in revenues due to the lack of production in Argentina.

Capital Expenditure

The Group has continued to invest in capital expenditure as it concentrates on developing its asset base and maximising efficiencies.

	6 months ended 30 September		Financial year ended 31 March		
	2015	2016	2014	2015	2016
Capital Expenditure	**CAD$000**	**CAD$000**	**CAD$000**	**CAD$000**	**CAD$000**
Argentina	207	–	7	930	237
Azerbaijan	n.a.	–	n.a.	n.a.	n.a.
Italy	53	31	325	241	178
TOTAL	260	31	332	1,171	415

The capex increase in the year ended 31 March 2015 to CAD $1,171k was mainly due to the workover programme in Argentina. On September 2014, the Company's wholly-owned Argentinian subsidiary, Petrolera Patagonia, initiated a deep workover programme designed to evaluate and optimise production from active wells on both the Alberto and Don Ernesto oil properties. The main objective of this programme is to double production from up to 27 wells, and bring total Argentinian production to approximately 280 barrels per day. This workover programme resulted in new records of monthly production in November 2014 (4,723 barrels), in December 2014 (5,141 barrels), January 2015 (5,183 barrels) and in March 2015 (5,210 barrels).

Capital expenditure in Italy related to development plans in the following concessions:

- Masseria Petrilli. Production from this well commenced in September 2014;
- Masseria Grottavecchia (during all the periods). Production from this well is expected to start in late 2017;
- San Teodoro (during all the periods). The production from this well is expected to start in year 2017; and
- Torrente Cigno, Masseria Vincelli 1 in 2014 and 2015. Expenses relate to the acquisition of a co-generation plant and changes and upgrades to the production gas plant.

Cash received on business combination, net of cash paid

On the acquisition of the Italian assets from MOG, the Company received a cash payment of EUR 1,250k (CAD $1,701k) as MOG's contribution towards future costs. In addition, the Company received an initial advance of EUR 104k (CAD $142k), for a portion of the revenue MOG received from the assets during the period between the 24 August 2012, the acquisition agreement date, and 5 June 2013, the acquisition completion date. The amount was net of allowable operating costs, agreed capital expenditure associated with the assets and certain deposits for future capital expenditures. The effect of this was a cash inflow totalling CAD$ 1,843k (GBP 913k) during the 2014 to 2015 period.

Debt Financing

USD loan payable

On 20 January 2011, the Company obtained a loan from a private lender for US $2million. This loan has been subject to numerous amendments. The repayment schedule was amended in November 2016 such that a USD 700,000 payment is due on 20 December 2016 and a final payment of approximately USD 1,485,337 is due on 31 March 2018.

As at 30 September 2016, $921k of principal is classified as a current liability; $1,948k of principal is classified as long-term and $221k of accrued interest is included in trade and other payables.

Euro bank debt

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

As at 30 September 2016, the principal balance of the loan was €175k (CAD$258k) of which $61k is classified as a current liability and $198k is classified as long-term.

Euro bank debt

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

As at 30 September 2016 the principal balance of the loan was €164k (CAD$242k) of which $83k is classified as a current liability and $159k is classified as long-term.

Co-generation plant loan payable

On 1 October 2015, the Company acquired a co-generation plant from a third party of which €401k (CAD$595k) of the purchase price is in the form of a loan payable to the seller. The loan payable is secured by the co-generation plant and bears interest at 3.5% per annum and is repayable in 30 monthly payments of principal and interest until 31 March 2018. As at 30 September 2016, the principal balance of the loan was €258k (CAD$380k) of which $239k is classified as a current liability and $142k is classified as long-term.

USD bank debt

On 9 August 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a loan agreement (with partial drawdown allowed) with Rabitabank Open Joint Stock Company in Baku for the amount of USD $320k (CAD$ 413k). The loan could be drawn down in tranches and as at 30 September 2016 it was fully drawn down. The lender can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown or if the REDPSA is terminated. The loan bears interest at a rate of 12% per annum paid monthly. As at 30 November 2016, the balance of the loan outstanding was USD $160k (plus accrued interest), all of which is repayable on 22 February 2017.

As of 30 September 2016, CAD$421k of principal is classified as a current liability.

USD bank debt

On 30 September 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a second loan agreement (with partial drawdown allowed) with Rabitabank Open Joint Stock Company in Baku for the amount of USD $200k. The principal amount of the second loan agreement and accrued interest is payable in two tranches: USD$100k is payable on 3 January 2017 and the remaining USD$100k is payable on 3 April 2017.

USD bank debt

On 21 November 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a third loan agreement with Rabitabank Open Joint Stock Company in Baku for the amount of USD $55k. The principal amount of the second loan agreement and accrued interest is payable in full on 21 February 2017.

USD bank debt

On 22 November 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a fourth loan agreement with Rabitabank Open Joint Stock Company in Baku for the amount of USD $55k. The principal amount of the second loan agreement and accrued interest is payable in full on 22 February 2017.

Equity financing

The Company has sought to secure funds through equity financing and placings have taken place in all periods as follows;

- In FY 2016, the Company issued a total of 12,694,813 shares for net proceeds of CAD $1,048k at a price of CAD $0.08 per share;

- In FY 2015, the Company issued a total of 15,529,984 shares for net proceeds of CAD $2,148k at a price of CAD $ 0.15 per share; and
- In FY 2014, the Company issued a total of 1,150,000 shares for net proceeds of CAD $217k at a price of CAD $ 0.20 per share.

In all of the placings, warrants were issued to subscribers alongside the acquired shares.

Repayment of loans

Finance costs principally include the cost of interest payable on the US$2 million facility and Euro bank debt (the cumulative principal of which is €420k), that were taken out prior to the reporting periods for working capital purposes.

Cash position

As a result of the equity placings and debt management, the Company has been able to maintain sufficient cash resources to fund its ongoing capital expenditures and work programmes. Total cash increased from CAD $711k at the end of 2014 to CAD $936k to the end of the year 2015, representing an increase of 32% over the period.

In the year to 31 March 2016, total cash decreased to CAD $138k, due to the falling oil and gas prices and the problems in Argentina and Italy productions as described above.

Summary Statements of Financial Position

	6 months ended 30 September		Year ended 31 March		
	2015	2016	2014	2015	2016
	CAD$000	CAD$000	CAD$000	CAD$000	CAD$000
Non-current assets	17,705	1,066,968	19,803	17,049	14,805
Current Assets	2,052	2,343	2,605	2,199	1,492
TOTAL ASSETS	**19,757**	**1,069,311**	**22,408**	**19,248**	**16,298**
Current liabilities	6,179	7,689	(6,879)	(5,607)	(8,200)
Non-current liabilities	9,402	454,317	(9,953)	(9,352)	(10,375)
NET ASSETS	**4,176**	**607,305**	**5,576**	**4,289**	**(2,278)**

The non-current assets base fell in 2015 as a result of depreciation, changes to the decommissioning provision, foreign exchange movements and fell further in 2016 due to the impairment of the Italian assets.

The Group has a small long term prepayment relating to prepaid insurance for the Italian assets.

Current assets represent the Group's cash resources, trade and other receivables, inventory and financial assets held at fair value through the profit or loss. At 31 March 2016, of the CAD $1,492k of current assets, CAD $138k is represented by cash, generated principally from the equity and debt fund raises. Aside from cash the key balances within current assets are receivables due from oil and gas sales and withholding taxes due (2016: CAD $ 692k, 2015: CAD $618k and 2014: CAD $1,146k). Sales are made to large corporations and historically there have been no issues with recoverability. These balances were higher in 2014 purely as a result of timing. Minimal inventory levels are maintained. Financial assets held at FVTPL relate to equities and bonds.

Current liabilities as at 31 March 2016 represent trade and other payables, amounts due under an oil share agreement loans and convertible loans. In 2014, convertible loans were also classified as current liabilities due to their expected maturity date, they were renegotiated and as such were all included in non-current liabilities in 2015. As they near their maturity date, a portion of these moved into current liabilities in 2016. Trade and other payables represent amounts due to suppliers and general accruals and other creditors arising in the normal course of trading. The oil share agreement arose as a result of the acquisition of the Argentinian properties and has been available to be claimed by the third party since 2013 but as yet no claim has been made. The loan amount due is in respect of a USD $2 million loan (originally advanced in 2011) which has been rolled over since the initial due date in FY 2013.

Non-current liabilities (2016: CAD $ 7,719k, 2015: CAD $ 5,259k and 2014: CAD $ 7,277k) include a the decommissioning provision which is reassessed annually for both inflation and the time value of money resulting in annual movements which can be material. The other balances include deferred tax of CAD $153,928k which has arisen on the Italian and Azerbaijan transaction and loans (convertible and standard).

The key balances in non-current liabilities represent deferred consideration amounts (compensatory oil – CAD $1,977k, capital costs – CAD $285,549k and deferred taxation – CAD $153,044k) that have arisen in respect of the Azeri acquisition).

The most important change in the financial position for the 6 months ended 30 September 2016 is that on 11 of August 2016 the process of handover of the technical assets of the three oil fields, Muradkhanli, Jafarli and Zardab, in Azerbaijan was completed, and Company started crude oil production of approximately 275 barrels of oil per day in Azerbaijan under Zenith's name.

The valuations of the Azerbaijani asset and of the liabilities have been based on the net present value of future cash flows included in the evaluation report prepared for the Company by Chapman Petroleum relating the oil and gas reserves owned by the Company as of 31 March 2016 and published on 15 June 2016 (the "March Evaluation Report").

The Competent Persons Report includes a change in the valuation of the Azeri asset which has arisen due to amendments to the development plan and the postponement of drilling. These changes have occurred due to delays in handover (completed 11 August 2016) and Admission of the Company to the London Stock Exchange.

The revised valuation of the assets and liabilities acquired along with the revised NPV of the Azeri asset can be found below:

Fair Value of Assets and Liabilities acquired (CAD$'000)	**March Evaluation Report (31 March)**	**CPR (31 August)**	**Differences**
D&P assets	1,052,765	990,602	(62,163)
Compensatory Oil*	(1,997)	(1,833)	164
Capital Costs*	(285,549)	(266,901)	18,648
Foreign Currency Translation	7,913	7,913	–
Decommissioning Obligations	(1,943)	(1,790)	153
Gain on business acquisition	**771,189**	**727,991**	**(43,198)**
Taxation	(153,044)	(144,374)	8,670
Net NPV of the assets	**618,145**	**583,617**	**(34,528)**

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

Liquidity and Capital Resources

Zenith has been funding its cash requirements from equity and debt sources as well as seeking value from deals undertaken which will allow for improved cash generation through quick, effective solutions. Zenith has raised circa CAD $3.4 million from investors in 2014, 2015 and 2016. Successful management of debt (e.g. renegotiation of loans) and finance funding has allowed Zenith to fund its activities despite being in a net current liability position for each of the three years presented.

The Company has reached an agreement with the holder of the remaining CHF 540k (CAD $731k – GBP 370k) of unsecured convertible notes to reduce the conversion price from CAD $0.215 to CAD $0.125 per share and the rate of interest has been reduced from 9% to 5%. In August 2016, subject to approval by the TSX Venture Exchange, the Company entered into an agreement to amend the terms of its unsecured convertible notes from 11 January 2017 to 11 January 2018

In December 2015, the US $2million loan maturity date was extended from 30 August 2016 to 31 March 2018 and the repayment schedule was amended to require a US $700k payment on 28 February 2016 or other date being agreed with the lender, repayments of principal and interest in the amount of US$ 20k per month from 5 April 2016 to 31 March 2018 and a final payment of approximately

US$ 1,485k on 31 March 2018.The loan agreement was subsequently amended in November 2016 to extend the US$ 700k principal payment date to 20 December 2016.

Continuing operations are dependent on the ability to obtain adequate new funding to finance existing operations, attain commercial production from its oil and gas properties, find an industry partner to participate in exploration activities and attain future profitable operations. Additional financing is subject to the global financial markets and economic conditions.

Zenith management believes that its development plans in Argentina and Italy alongside its acquisition of producing properties in Azerbaijan which formally completed on 11 August 2016, the favourable economic policy in Argentina and the significant devaluation of the Argentine peso and the Azerbaijani manat (the currency in which their local costs are paid) will allow the Company to ameliorate the negative effects of the fall in oil product prices in global markets.

Key financial risks

Foreign exchange risk

The proceeds of the Group's oil and gas sales in Argentina are received in US Dollars and proceeds from Italy are received in Euros. The majority of the Group's expenditure requirements are in Canadian Dollars (Canada), Peso (Argentina), Euros (Italy), New Manat (Azerbaijan from 2016) and Pounds Sterling (UK). The group has general and administrative expenditure with respect to offices in Canada, Argentina, the UK and Italy and is therefore exposed to foreign exchange risk against Canadian Dollars, Argentinian Peso, UK Sterling and the Euro. This is in addition to exposure to the Swiss Franc as a result of convertible loan notes held.

The Company has raised equity capital in the past and has received proceeds in Canadian Dollars. Such funds have been converted in other currencies as required to fund cash requirements.

Liquidity risk

The Group's cash requirements and cash reserves are projected for the Group as a whole and for each country in which operations are conducted. The Group aims to meet its cash requirements though an appropriate mix of debt and equity financing and debt management. The Group further mitigates liquidity risk by maintaining an insurance programme to minimise exposure to insurable losses.

Commodity price risk

Historically, oil and gas prices have fluctuated widely and are affected by numerous factors over which the Group has no control, including world production levels, international economic trends, exchange rate fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events. The aggregate effect of these factors is impossible to predict. The production estimates for the Group's operating assets and the oil and gas prices will vary depending upon market conditions, which are not within the control of the Group.

Oil prices in Argentina are the result of formulas that are set by refineries based on instructions or decrees from the Government of Argentina. Crude oil prices in Argentina are capped by the Government of Argentina at variable levels which, to a degree, minimises overall risk. Condensate prices are linked to the Brent crude price and as such can fluctuate. The Board has no immediate intention to enter into fixed price, long term marketing contracts for either oil or gas. Pricing for production for the Azerbaijan assets has not been arranged. Although commodity process may fluctuate widely, it is the Group's present policy not to enter into any hedging arrangements.

Risks Relating to the Group's Operations in Azerbaijan

The Company is aware that emerging markets such as Azerbaijan are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies, such as Azerbaijan's, are subject to rapid change and that the information set out in this Document may become outdated relatively quickly.

PART 15

CAPITALISATION AND INDEBTEDNESS

The following table shows the capitalisation and indebtedness of the Company as at 30 September 2016, extracted without material adjustment from the Company's unaudited management accounts as at 30 September 2016. All the amounts are expressed in thousand Canadian Dollars (CAD$'000).

Total Current debt		7,689
Guaranteed	–	
Secured	2,617	
Unguaranteed/Unsecured	5,072	
Total Non-Current debt		454,317
Guaranteed	–	
Secured	290,196	
Unguaranteed/Unsecured	164,121	
Shareholder's equity:		607,305
Share capital	10,351	
Legal Reserve	–	
Other Reserves	596,954	
Total		**1,069,311**
Cash	126	
Cash equivalent (Detail)	–	
Trading securities	353	
Liquidity		**479**
Current Financial Receivable		**1,864**
Current Bank debt	1,503	
Current portion of non current debt	–	
Other current financial debt	4,645	
Current Financial Debt		**6,148**
Net Current Financial Indebtedness		**3,805**
Non current Bank loans	2,665	
Bonds Issued	887	
Other non current loans	–	
Non current Financial Indebtedness		**3,552**
Net Financial Indebtedness		**7,357**

PART 16

HISTORICAL FINANCIAL INFORMATION

This Part 16 sets out the following audited historical financial information: the consolidated financial statements of the Company for the years ended 31 March 2014, 2015 and 2016; and the unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 September 2016. The aforementioned reports were current only as at their dates of publication, and there inclusion herein is not intended to create any implication that there has been no change in the affairs of the Company since the date of the relevant report or that the information contained in them is current as at any time subsequent to their respective dates.

MNP LLP of 1500, 640 – 5th Avenue SW, Calgary, Alberta T2P 3G4 P, Canada, Chartered Accountants regulated by and with membership of the Canadian Public Accounting Body, has issued unqualified audit opinions to the Shareholders of the Company and its Subsidiaries on the consolidated financial statements of the Company included in its Annual Reports for each of the three years ended 31 March 2016, 2015 and 2014.

The audit reports referred to above were not qualified but included an emphasis of matter on going concern drawing users attention to the fact that the Company has a working capital deficit, negative cash flows from operating activities and an accumulated deficit. The consolidated financial statements of the Company have been prepared in accordance with IFRS on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

It is management's assessment that the going concern assumption is appropriate based on its continued ability to raise funds and amend debt terms. The financial statements for the years ended 2016, 2015 and 2014 were prepared in accordance with IFRS, as adopted by the European Union.

ACCOUNTANTS' REPORT ON THE COMPANY

PKF

Accountants &
business advisers

The Directors and the Proposed Director
Zenith Energy Ltd.
Suite 1500, 15th floor, Bankers Court, 850
2nd Street SW,
Calgary AB, Canada T2P 0R8

5 January 2017

Dear Sirs

Introduction

We report on the consolidated financial information set out in this Part 16 of the prospectus (the "Document") dated 5 January 2017 of Zenith Energy Ltd. (the "Company") and its subsidiaries, together referred to as the Group. This financial information has been prepared for inclusion in the Document on the basis of the accounting policies set out in note (3) of the financial information. This report is required by Annex 1 item 20.1 of Commission Regulation (EC) No. 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The directors of the Company (the "Directors") are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information underlying the financial statements and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Company as at the periods stated and of its profits/losses, cash flows and changes in equity for the periods stated in accordance with IFRS.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Document in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

PKF Littlejohn LLP
Reporting Accountants

Statement of Comprehensive Income

Continuing operations	Note	Financial year ended 31 March 2014 CAD $'000	31 March 2015 CAD $'000	31 March 2016 CAD $'000
Revenue	28	4,109	4,784	2,075
Royalties		(421)	(345)	(115)
Cost of Sales				
Production Costs		(1,994)	(1,813)	(2,033)
Depletion and depreciation	10	(784)	(668)	(332)
Decommissioning charge	20	(4,622)	–	–
-Gross (Loss)/Profit		(3,712)	1,958	(405)
Administrative expenses	5	(2,862)	(2,949)	(2,449)
(Impairment)/Gain – on business combination	6	12,193	–	(5,025)
Operating -Profit/(Loss)		5,619	(991)	(7,879)
Fair value movements	17	25	134	(216)
Net Interest expense	8	(768)	(1,420)	(1,094)
Profit/(Loss) for the year before taxation		4,876	(2,277)	(9,189)
Taxation	9	1,442	(99)	1,514
Profit/(Loss) for the year attributable to owners of the parent		6,318	(2,376)	(7,675)
Other Comprehensive Income				
Items that may be subsequently reclassified to profit or loss:				
Foreign exchange		669	(1,598)	(142)
Total Comprehensive Income for the year attributable to owners of the parent		6,987	(3,974)	(7,817)
Earnings per share (CAD $)	24	0.72	(0.11)	(0.23)

See note (7) as the results to 31 March 2014 were subject to a restatement.

Statement of Financial Position

	Note	Financial year ended 31 March 2014 CAD $'000	31 March 2015 CAD $'000	31 March 2016 CAD $'000
ASSETS				
Non-current assets				
Property, Plant and Equipment	10	19,253	16,693	14,598
Other receivables	11	549	355	207
		19,802	17,048	14,805
Current Assets				
Inventory	23	48	65	173
Trade and other receivables	26	1,468	960	1,173
Financial instruments at FVTPL	14	378	237	8
Cash and cash equivalents	26	711	936	138
		2,605	2,198	1,492
TOTAL ASSETS		**22,407**	**19,246**	**16,297**
EQUITY AND LIABILITIES				
Equity attributable to equity holders for the parent				
Share Capital	12	7,151	8,685	9,578
Share option reserves	13	487	1,246	1,510
Contributed surplus		1,745	2,139	2,232
Retained deficit		(3,808)	(7,781)	(15,598)
Total equity		**5,575**	**4,289**	**(2,278)**
Non-current liabilities				
Loans	15	378	433	674
Convertible loans	16	–	741	921
Decommissioning provision	20	7,277	5,779	7,897
Deferred taxation	9	2,298	2,397	883
Total non-current liabilities		**9,953**	**9,350**	**10,375**
Current Liabilities				
Trade and other payables	26	2,474	2,235	3,266
Oil share agreement	19	876	1,005	1,027
Loans	15	2,262	2,367	3,210
Convertible loans	16	1,267	–	697
Total current liabilities		**6,879**	**5,607**	**8,200**
TOTAL EQUITY AND LIABILITIES		**22,407**	**19,246**	**16,297**

See note (7) as the results to 31 March 2014

Statement of Changes in Equity

	Share Capital CAD $'000	Share Option Reserve CAD $'000	Contributed surplus CAD $'000	Retained deficits CAD $'000	Total CAD $'000
Balance as at 31 March 2013	**6,556**	**1,231**	**908**	**(10,795)**	**(2,100)**
Profit for the year	–	–	–	6,319	6,319
Other comprehensive income	–	–	–	668	668
Total comprehensive income	–	–	–	6,987	6,987
Share issue net of costs – private placement	688	–	–	–	688
Share issue net of costs – warrants issued	(93)	93	–	–	–
Expired options	–	(837)	837	–	–
Balance as at 31 March 2014	**7,151**	**487**	**1,745**	**(3,808)**	**5,575**
Loss for the year	–	–	–	(2,375)	(2,375)
Other comprehensive income	–	–	–	(1,598)	(1,598)
Total comprehensive income	–	–	–	(3,973)	(3,973)
Share issue net of costs – conversion of loan notes	539	–	–	–	539
Share issue net of costs – private placement	2,148	–	–	–	2,148
Share issue net of costs – warrants issued	(1,153)	1,153	–	–	–
Expired options	–	(394)	394	–	–
Balance as at 31 March 2015	**8,685**	**1,246**	**2,139**	**(7,781)**	**4,289**
Loss for the year	–	–	–	(7,675)	(7,675)
Other comprehensive income	–	–	–	(142)	(142)
Total comprehensive income	–	–	–	(7,817)	(7,817)
Share issue net of costs – conversion of loan notes	110	–	–	–	110
Share issue net of costs – debt settlement	67	–	–	–	67
Share issue net of costs – private placement	1,048	–	–	–	1,048
Share issue net of costs – warrants issued	(333)	357	–	–	24
Expired options	–	(93)	93	–	–
Balance as at 31 March 2016	**9,578**	**1,510**	**2,232**	**(15,598)**	**(2,278)**

Reserve	**Description and purpose**
Share capital	Amount subscribed for share capital
Share option reserve	Relates to increase in equity for services received – equity settled share bond payment transactions
Combined surplus	Expired share options
Retained deficit	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

Consolidated and combined statements of cash flows

	Note	31-March-14 CAD $'000	31-March-15 CAD $'000	31-March-16 CAD $'000
		Financial year ended		
Operating activities				
Net income/(loss)		6,318	(2,374)	(7,675)
Items not involving cash:				
Shares issued for services		59	–	67
Loss/(Gain) on sale of marketable securities		–	136	(20)
Fair value adjustment on marketable securities		30	162	28
Foreign exchange on translation		65	61	(804)
Loss/(Gain) on conversion of convertible notes		–	82	(13)
Fair value adjustment on derivative liability	17	(56)	(514)	221
Depletion and depreciation		784	668	332
Gain on business combination		(12,193)	–	–
Impairment		–	–	5,025
Decommissioning obligation on business combination	20	4,622	–	–
Impairment of inventory		–	–	229
Other expense		–	–	32
Royalties on oil share agreement	19	121	–	–
Finance expense		462	1,000	720
Deferred tax provision	9	(1,478)	99	(1,514)
Operating cash flows before changes in working capital		**(1,264)**	**(681)**	**(3,372)**
Change in non-cash working capital		(539)	47	898
Net cash flows from operating activities		(1,803)	(634)	(2,474)
Investing activities				
Purchase of marketable securities		–	(202)	(136)
Proceeds on sale of marketable securities		–	56	362
Cash received on business combination, net of cash paid		1,843	–	–
Expenditures on property and equipment		(332)	(1,170)	(415)
Change in non-cash working capital		565	299	34
Net cash flows generated/(used in) from investing activities		**2,076**	**(1,017)**	**(155)**
Financing activities				
Repayment of notes payable		(87)	(275)	(204)
Net proceeds from issue of share capital		217	2,148	1,050
Net proceeds from issue of bonds		–	–	518
Net proceeds from bank loans		–	–	454
Change in non-cash working capital		–	30	159
Net cash flows generated from financing activities		**130**	**1,903**	**1,977**
Net increase/(decrease) in cash		403	252	(652)
Foreign exchange effect on cash held in foreign currencies		(38)	(27)	(146)
Cash at beginning of year		**346**	**711**	**936**
Cash at end of year		**711**	**936**	**138**

Notes to the consolidated and combined financial information

1. Corporate and Group information

Corporate Information

The consolidated and combined financial information of Zenith Energy Ltd. and its subsidiaries (collectively, the "Group") has been prepared on the basis set out below.

The Company is a corporation which was incorporated, as Canoel International Energy Ltd., under the Business Corporations Act (British Columbia) on 20 September 2007, and changed its name to Zenith Energy Ltd. on 30 September 2014. The Company is domiciled in British Columbia and its registered Corporation number is BC0803216. The address of the Company's registered office is 20th Floor, 250 Howe Street, Vancouver BC V6C 3R8, Canada. Zenith's website is www.zenithenergy.ca.

The Company is involved in the exploration for, development of and production of petroleum, natural gas and electricity in Argentina, Italy and Azerbaijan.

The Company is currently admitted in the Toronto Stock Exchange under the symbol, "ZEE".

2. Basis of preparation

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The financial information has been prepared under the historical cost conversion except for financial instruments which are measured at fair value through the profit and loss. The financial statements are presented in Canadian Dollars (CAD $) and have been rounded to the nearest thousand (CAD $'000) except where otherwise indicated.

The Board has reviewed the accounting policies set out below which have been applied consistently, and considers them to be the most appropriate to the Group's business activities.

(a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost conversion, as modified by the revaluation of financial assets and liabilities at fair value through the profit and loss.

(b) Presentation and functional currency

The presentation currency of the Company is the Canadian dollar ("CAD $").

Functional currency is the currency of the primary economic environment in which a company operates. The functional currency of the Company is the CAD $. The functional currencies of the Company's subsidiaries are Argentine Pesos ("ARS") for the subsidiaries in Argentina, United States ("US $") dollars for the subsidiaries in the US, Euros ("EUR") for the subsidiary in Italy and New Manat for the subsidiary in the British Virgins Islands.

Functional currency is determined by the Directors by looking at a number of relevant factors including the currency in which Group entities usually generate and spends cash, business transactions are normally denominated.

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

The factors that have determined the adoption of the CAD $ as presentation currency are:

- mainly affects the prices at which the goods or services are consolidated
- Canada is the country whose regulations, market conditions and competitive forces mainly affect the pricing policy of the entity
- influences the costs and expenses of the entity

- the funds are usually generated in that currency
- the receipts from operating activities are retained in that currency

(c) Going concern

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

(d) New standards and interpretations not yet adopted

As at the date of approval of these financial information, there are a number of standards and interpretations that are in issue but not yet effective. The Directors do not anticipate that the adoption of these standards and interpretations in future periods will have a material impact on the Group results although they have yet to assess the impact of IFRS 15.

During the period the Group adopted several new accounting policies, as the result of the issuance of new standards. The adoption of these new policies resulted in no change to the reported amounts.

3. Significant accounting policies

(a) Consolidation

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

Name	Country of incorporation	Proportion of ownership interest	Principal activity
Ingenieria Petrolera Patagonia Ltd.	Denver, Colorado, USA	100%	Sub-Holding
Canoel Italia S.r.l.	Genova, Italy	98.6%	Gas, Electricity and Condensate production
Petrolera Patagonia Corporation Inc. ("PPC")	Denver, Colorado, USA	100% owned subsidiary of IPP	Sub-Holding
PP Holding Inc. ("PPH")	Denver, Colorado, USA	100% owned subsidiary of IPP	Sub-Holding
Petrolera Patagonia S.r.l.	Argentina	95% owned subsidiary of PPC and 5% held by PPH	Oil production
Ingenieria Petrolera del Rio de la Plata S.r.l.	Argentina	100%	Oil Services
Zenith Aran Oil Company Limited	British Virgin Islands	100%	Oil production

Subsidiaries are entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Adjustments are made to the results of subsidiaries to bring the account policies used by them, with those used by the Group.

The Group participates in unincorporated joint arrangements which have the joint control of assets used in the Group oil and gas production activities. The Group accounts, for all of the joint arrangements as joint operations by recognising its share of assets, liabilities, income and expenditure of the joint arrangement in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial position as appropriate.

Business combinations

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

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

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

Joint arrangements

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

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

Foreign currency translation

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

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

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and,
- Income and expenses are translated at average exchange rates for the period.

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

Cash

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

Inventory

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

Property and equipment

Development and production expenditures

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

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

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

Subsequent costs

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

Depletion and depreciation

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

Office furniture

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

Impairment

At the end of each reporting period, the Company reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into cash-generating units ("CGUs") for the purpose of impairment testing.

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

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

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

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

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

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

Decommissioning provision

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

Decommissioning provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognised as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalised state where. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Taxation

Tax expense is comprised of current and deferred tax and it is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

Royalty

Royalties are charged on Argentine oil revenues only, and are approximately 9% of revenue.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, marketable securities, trade and other payables, oil share agreement, note payable, loan payable and convertible notes.

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

Financial assets at fair value through profit or loss

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

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

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

Other

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

Compound financial instruments

Compound financial instruments include convertible notes which can be converted into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognised as the fair value of the liability without the conversion feature. The equity component is recognised as the difference between the fair value of the convertible debt and the fair value of the liability component.

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

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

Derivative financial instruments

The Company evaluates all financial instruments for freestanding and embedded derivatives.

The conversion feature of convertible notes is an embedded derivative if the principal amount is convertible into common shares at a conversion price in a currency that differs from the currency of the principal amount such as when a foreign currency principal amount is convertible into common shares (and warrants) at a CAD conversion price.

In this case, the Company recognises the fair value of the derivative components at the date of issuance, with the remainder of the proceeds attributed to the liability component of the convertible notes.

The derivative component is marked-to-market at each reporting date using the Black-Scholes pricing model to estimate the fair value. Changes in the fair value of the derivative liability are included in the consolidated statement of comprehensive income. The liability component accretes up to the principal balance at maturity.

Upon conversion, the liability component is reclassified to equity and a gain or loss is recognised in the consolidated statements of income (loss) and comprehensive income (loss) for differences between the conversion price and the market price of the Company's shares on the date of conversion.

Impairment of financial assets

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

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

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

Share capital

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

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

Share-based payments

The cost of providing share-based payments to employees is charged to the Statement of Comprehensive Income (or treated as a share issue cost) over the vesting period of the related share options or share allocations. The cost is based on the fair volumes of the options, and shares allocated determinate using the binomial method. The volume of the charge is adjusted to reflect expected and actual level of vesting. Charges are not adjusted for market related conditions that are not achieved. Where equity instruments are granted to persons other than Director or employees the consolidated statement of Comprehensive Income is charged with the fair value of good or service related.

Earnings per share

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

Revenue recognition

Revenue represent the sale value of the Group share of oil and gas and the income from technical services and is recognised when the significant risks and rewards of ownership have passed to the buyer, which is typically at the point that the service and revenue can be reliably measured.

Revenues are recognised when title and risks pass to the purchaser or when services are rendered.

Finance income and expense

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

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

Leases

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

4. Critical accounting estimates and judgement

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumption about the future. The relating accounting estimates will by definition, seldom equal to related achieved result. The estimated and judgments that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(a) Property and equipment

Management reviews the Group's property, plant and equipment periodically for impairment indicators.

The determination of recoverable amounts in any resulting impairment test requires judgement around key assumptions. Key assumptions in the impairment models include those related to prices that are based on forward curves and long-term corporate assumptions thereafter, discount rates, that are risked to reflect conditions specific to individual assets, future costs, both capital and operating that are based on management's estimates having regard to past experience and the known characteristics of the individual assets, reserves and future production, which are discussed further on note 10.

(b) Proved and probable reserves and contingent resources

The volume of proved and probable oil and gas reserves is an estimate that affects the unit of production depreciation of producing oil and gas property, plant and equipment as well as being a significant estimate affecting decommissioning provisions, impairment calculations and the valuation of oil and gas properties in business combinations. Contingent resources affect the valuation of exploration and exploration assets acquired in business combinations and the estimation of the recoverable value of those assets in impairment tests.

Proved and probable reserves and contingent resources are estimated using standard recognised evaluation techniques. Estimates are reviewed at least annually and are regularly estimated by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

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

(c) Deferred tax asset recognition

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Details of the Group's deferred tax assets, including those not recognised due to uncertainty regarding the future utilisation, are disclosed in the note 9.

(d) Decommissioning costs

Most of these decommissioning events are many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations.

The estimated cost of decommissioning at the end of the producing lives of fields is reviewed periodically and is based on forecast price levels and technology at the Statement of Financial Position date. Provision is made for the estimated cost at the Statement of Financial Position date, using a discounted cash flow methodology and a risk free rate of return. Details of the Group's decommissioning costs are disclosed in note 20.

(e) Business combinations

When the Group acquires a business, it assesses the fair value of the assets acquired and liabilities assumed by reference to the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Petroleum reserves and resources used in the assessment of fair values on acquisition refer to independent reports. Where resources are significant they are risked on the basis of their inherent uncertainty.

Discounted cash flow models are used to reflect the revenues and expenditures related to the extraction of those reserves. Comparable resource multiples achieved in recent market activity are used for resources. Other assets and liabilities are valued by reference to market-based observations or independent valuations where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

5. Administrative Expenses

General and administrative expenses for the three years ended 31 March are composed of the following:

	Year ended 31 March		
	2014	**2015**	**2016**
	CAD	**CAD**	**CAD**
	$'000	**$'000**	**$'000**
Professional fees	**1,086**	**940**	**1,119**
External Audit Remuneration fees	110	115	114
External Audit related services	22	68	40
Reserve report fees	107	80	136
Legal fees	189	182	224
Accountancy fee	124	87	90
Consultancy	195	202	213
Other fees	339	206	302
Office	**484**	**716**	**568**
Employee compensation cost	304	564	433
Office rental	52	55	55
Other expenses	128	97	80
Administrative	**297**	**457**	**503**
Administrative services	201	258	338
Taxes	43	49	12
Other expenses	53	150	153
Salaries and benefits	**293**	**482**	**433**
Consulting fees	136	235	381
Bonus	153	200	–
Other expenses	4	47	52
Travel	**220**	**100**	**475**
Other expenses	**–**	**–**	**32**
Transaction costs	**–**	**–**	**36**
Foreign exchange	**482**	**254**	**(717)**
TOTAL	2,862	2,949	2,449

6. Business combinations

1) On 5 June 2013, the Company completed the acquisition of various working interests in 13 Italian producing and exploration properties (the "Assets") from Medoilgas Italia S.P.A. and Medoilgas Civita Limited, each a subsidiary of Mediterranean Oil and Gas Plc (collectively, "MOG") after receiving the final approval from the Italian Ministry of Economic Development to the change of ownership.

The Company paid MOG a nominal sum of EUR 100 (CAD $136) for the acquisition of MOG's working interests in the Assets and has assumed the liability for future plugging, abandonment and site remediation costs associated with the Assets. At the same time, the Company received a cash payment of EUR 1,250,000 (CAD $1,701k) as MOG's contribution towards future costs.

The Company also received an initial advance of EUR 104,000 (CAD $142k), for a portion of the revenue MOG received from the Assets during the period between the 24 August 2012 the acquisition agreement date and 6th June 2013, the acquisition completion date. The amount was net of allowable operating costs, agreed capital expenditure associated with the Assets and certain deposits for future capital expenditures.

The acquisition of Assets was accounted for as a business combination using the acquisition method of accounting as follows:

Fair value of net assets acquired	**CAD $'000**
Cash	1,843
Trade and other receivables	402
D&P assets	15,217
Foreign currency translation	(7)
Decommissioning obligation	(1,119)
Deferred tax	(3,776)
Gain on business combination	(12,193)
	367
Consideration:	
Cash	–
Pre-acquisition capital expenditures	367
	367

The estimated value of the D&P assets acquired was determined using both internal estimates and an independent reserve evaluation based on oil and gas reserves discounted at 15%.

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

As the cost of the acquisition was less than the fair value of the net assets acquired, the Company recognised a CAD $12,193k gain on the business combination in the 2014 Consolidated Statement of Comprehensive Income.

On 7 June 2013, the day immediately following the acquisition date, the decommissioning obligation assumed was re-measured using a long-term risk-free rate based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The result was a CAD $4,622k increase in the decommissioning obligation associated with the acquired assets and the recognition of a CAD $4,622k measurement adjustment in the 2014 consolidated statement of income (loss) and comprehensive income (loss).

Costs related to the acquisition totaling CAD $234k were incurred and charged to the statement of comprehensive income during year ended 31 March 2014. During the period from 5 June 2013 to 31 March 2014, the acquisition attributed revenues of CAD $902k and net income of CAD $6,896k.

If the business combination, as described above, had occurred on 1 April 2013, the Company estimates that the revenue would have increased by approximately CAD $180k and consolidated net income and comprehensive income would have decreased by approximately CAD $12k. This pro forma information is not necessarily indicative of results had the acquisition occurred on 1 April 2013.

2) On 1 October 2015, the Company acquired a co-generation plant and assumed certain liabilities for a plant employee from a third party for total consideration of EUR 449k (CAD $666k), of which EUR 401k (CAD $550k) was financed in the form of a loan payable to the seller (Note 15) and EUR 48k (CAD $71k) was offset against trade and other receivables due from the seller. The loan payable is secured by the co-generation plant and bears interest at 3.5% per annum and is repayable in 30 monthly payments of principal and interest until 31 March 2018.

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

Fair value of net assets acquired	**CAD $'000**
Co-generation plant (D&P assets)	708
Decommissioning obligation	(11)
Trade and other payables	(31)
	666
Consideration:	
Euro loan payable (Note 15)	595
Trade and other receivables	71
	666

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

On 2 October 2015, the day immediately following the acquisition date, the decommissioning obligation assumed was re-measured using a long-term risk-free rate based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The result was a CAD $32k increase in the decommissioning obligation associated with the acquired assets and the recognition of a CAD $32k measurement adjustment in the 31 March 2016 consolidated statement of loss and comprehensive loss.

Costs related to acquisition were CAD $36k and charged to income during the year ended 31 March 2016. During the period from 1 October 2015 to 31 March 2016, the acquisition attributed revenues of CAD $262k and net income of CAD $179k for the period, which is included in the 31 March 2016 consolidated statement of loss and comprehensive loss.

If the business combination, as described above, had occurred on 1 April 2015, the Company estimates that the revenue would have increased by approximately CAD $243k and consolidated net loss and comprehensive loss would have decreased by approximately CAD $174k. This pro forma information is not necessarily indicative of results had the acquisition occurred on 1 April 2015.

7. Restatement of 31 March 2014 Consolidated Financial Statements

Management identified the following errors related to the 31 March 2014 consolidated financial statements which were corrected retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amounts are expressed in thousand CAD $:

a) The Company used a spot-rate rather than a credit-adjusted rate in the calculation of the fair value of the decommissioning obligation of the Company's Italian assets on the acquisition date. The restatement of the Company's March 31, 2014 consolidated financial statements for this error resulted in a CAD $918k increase in property and equipment, a CAD $7,581k reduction in decommissioning obligation, a CAD $2,337k increase in deferred tax liability, a CAD $327k reduction in accumulated other comprehensive loss and a CAD $5,835k reduction of deficit related to a corresponding increase in the gain recognised on the acquisition.

b) The Company did not include certain pre-acquisition capital expenditures relating to the Italian assets in the business combination. The inclusion of these pre-acquisition capital expenditures in the business combination resulted in a CAD $390k decrease in property and equipment (CAD $24k relates to foreign currency translation), a CAD $97k decrease in deferred tax liability, a CAD $28k increase in accumulated other comprehensive loss and a CAD $266k increase in deficit related to a CAD $5k decrease in depletion expense, a CAD $266k decrease in the gain recognised on the acquisition and a CAD $4k reduction in the recovery of income taxes.

c) Based on a change in the discount rate used in the fair value measurement of the decommissioning obligation on the date of acquisition to a long-term risk-free rate based on the expected timing of cash flows of the decommissioning obligation under IAS 37, there was a CAD $4,815k increase in the decommissioning obligation associated with the acquired assets (comprised of a CAD $4,622k measurement adjustment and CAD $193k of foreign exchange) and a CAD $1,271k decrease in the deferred tax liability offset by the recognition of a corresponding CAD $4,622k measurement adjustment, a CAD $1,271k increase in the deferred tax recovery and CAD $193k decrease in exchange differences on translation of foreign operations in the consolidated statements of income (loss) and comprehensive income (loss).

d) The Company miscalculated the year end decommissioning obligation which, combined with the impact a revision to the long-term risk free rate, resulted in a CAD $2,213k reduction in property and equipment, a CAD $3,350k reduction in decommissioning obligation, a CAD $122k increase in deferred tax liability, a $1,125k reduction in accumulated other comprehensive loss and a CAD $101k increase in deficit related to corresponding changes in depletion, accretion and deferred tax expense.

The Company corrected the above errors retrospectively in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” as presented in the following 31 March 2015 consolidated financial statements:

Consolidated statements of financial position as at 31 March 2014:

	Previously reported CAD $’000	Adjustment CAD $’000	Restated CAD $’000
ASSETS			
Current assets	2,606	–	2,606
Non-current assets			
Property and equipment	20,937	(1,685)	19,252
Prepaid property and equipment insurance	549	–	549
Total assets	24,092	(1,685)	22,407
LIABILITIES			
Current liabilities	6,879	–	6,879
Non-current liabilities			
Loan payable	378	–	378
Decommissioning obligation	13,393	(6,116)	7,277
Deferred taxes	1,207	1,091	2,298
Total liabilities	21,857	(5,025)	16,832
SHAREHOLDERS’ EQUITY			
Share capital	7,152	–	7,152
Warrants	487	–	487
Contributed surplus	1,744	–	1,744
Accumulated other comprehensive loss	(1,443)	1,231	(212)
Deficit	(5,705)	2,109	(3,596)
Total shareholders’ equity	2,235	3,340	5,575
Total shareholders’ equity and liabilities	24,092	(1,685)	22,407

Consolidated Statement of Comprehensive income for year ended 31 March 2014:

	Previously reported CAD $'000	Adjustment CAD $'000	Restated CAD $'000
Revenue			
Oil and natural gas revenue	4,109	–	4,109
Royalties	(421)	–	(421)
	3,688	–	3,688
Expenses			
Operating	1,940	–	1,940
Transportation	54	–	54
General and administrative	2,380	–	2,380
Foreign exchange	483	–	483
Fair value adjustment on marketable securities	31	–	31
Gain on business combination	(6,624)	(5,569)	(12,193)
Measurement adjustment on decommissioning obligation	–	4,622	4,622
Depletion and depreciation	889	(106)	783
Fair value adjustment on derivative liability	(56)	–	(56)
	(903)	(1,053)	(1,956)
Income from operations	4,591	1,053	5,644
Finance income	126	–	126
Finance expense	(805)	(89)	(894)
Net finance expense	(679)	(89)	(768)
Income before taxes	3,912	964	4,876
Tax reduction	297	1,145	1,442
Net income	4,209	2,109	6,318
Exchange differences on translation of foreign operations	(562)	1,231	669
Comprehensive income	3,647	3,340	6,987

8. Finance income and expense

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Income:			
Recovery of loan payable interest (see note below)	126	–	–
Expense:			
Interest expense	491	444	615
Accretion of decommissioning obligation	298	557	288
Accretion of convertible notes	105	419	187
Accretion of bonds	–	–	4
	894	1,420	1,094
Net finance expense	**768**	**1,420**	**1,094**

As a result of an amendment to the loan payable (Note 15), the Company recognised a finance income in the year to 31 March 2014 in respect of the recovery of previously accrued but unpaid interest.

9. Taxation

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

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Current tax	36	–	–
Deferred tax	(1,478)	99	(1,514)
Total tax credit/(charge) for the year	**(1,442)**	**99**	**(1,514)**

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Loss before taxation	4,876	(2,277)	(9,189)
Expected tax at 25%	1,219	(569)	(2,435)
Non-taxable gain on business combination	(2,942)	–	–
Non-deductible expenses	12	(47)	41
Changes in enacted rates and other	(22)	775	(441)
Changes in unrecognised deferred tax assets	291	(60)	1,321
Tax credit/(charge)	(1,442)	99	(1,514)

The tax (credit) charge for the year ended 31 March 2016 comprised CAD $Nil (2015 – CAD $Nil 2014 – CAD $36k) of current tax expense and CAD $1,514k deferred tax reduction (2015 – CAD $99k deferred tax provision and 2014 – CAD $1,478k deferred tax reduction).

Recognised deferred tax liabilities are attributable to the following:

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Property and equipment	(3,837)	(3,886)	(2,554)
Decommissioning obligation	1,539	1,366	1,562
Non-capital loss carryforwards	–	123	109
Recognised deferred tax liabilities	(2,298)	(2,397)	(883)

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

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Non-capital loss carryforwards	2,442	2,955	4,157
Share issuance costs	25	36	39
Other	805	220	337
Unrecognised deferred tax assets	3,272	3,211	4,533

As at 31 March 2016, the Company has accumulated non-capital losses in Canada totaling CAD $15,200k (2015-CAD $11,600k and 2014 – CAD $9,100k) which expire in varying amounts between 2028 and 2036 and CAD $400k (2015 – CAD $500k and 2014 – CAD $400k) of non-capital losses in Italy.

10. Property and equipment

	D&P Assets CAD $'000
Carrying amount at 31 March 2013	**4,012**
Additions	332
Acquired in business combination	15,217
Disposals	–
Depreciation	(784)
Impairment	–
Decommissioning obligation	(84)
Exchange difference on translation of a foreign operation	560
Carrying amount at 31 March 2014	**19,253**
Additions	1,171
Acquired in business combination	–
Disposals	–
Depreciation	(668)
Impairment	–
Decommissioning obligation	(1,487)
Exchange difference on translation of a foreign operation	(1,576)
Carrying amount at 31 March 2015	**16,693**
Additions	313
Acquired in business combination	709
Disposals	
Depreciation	(332)
Impairment	(5,025)
Decommissioning obligation	2,131
Exchange difference on translation of a foreign operation	109
Carrying amount at 31 March 2016	**14,598**

The depletion calculation for the year ended 31 March 2016 included estimated future development costs of CAD $2.7 million for proved and probable reserves (2015 – CAD $4.9 million and 2014 – CAD $4.0 million).

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

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

The estimated fair value less costs to sell of the Italian CGU was based on 15% (2015 – 15%) discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared reserve reports at 31 March 2016 and 2015. The estimated recoverable amount of the Italian CGU at 31 March 2016 was lower than the 31 March 2016 carrying amount resulting in the recognition of CAD $5,025,000 of impairment in the 2016 consolidated statement of loss and comprehensive loss. The estimated recoverable amount of the Italian CGU at 31 March 2015 was higher than the 31 March 2015 carrying amount and therefore no impairment was recognised.

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

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

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

As a result of the impairment test no impairment was recognised.

11. Prepaid property and equipment insurance

Upon the change of ownership of the Assets acquired in Italy (Note 6), the Company obtained an insurance policy for its Italian oil and gas operations. The policy has a five year term for which the Company paid the total premium of EUR 567k (CAD $868k), of which CAD $180k (2015 – CAD $210k and 2014 – CAD $145k) has been recognised as an expense, CAD $166k (2015 – CAD $158k and 2014 – CAD $174k) is included in current prepaid expenses and the remaining CAD $207k (2015 – CAD $355k and 2014 – CAD $549k) balance is reported as a long-term asset.

12. Share Capital

Zenith is authorised to issue an unlimited number of Common Shares, of which 43,594,406 were issued as at 31 March 2016 (2015: 29,292,081). 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.

Issued

	Number of common shares	Amount CAD $'000
Balance – 31 March 2013	**8,188,429**	**6,556**
Non-brokered unit private placement (i)	750,000	150
Fair value of warrants (i)	–	(93)
Non-brokered unit private placement (ii)	400,000	100
Shares issued for services (iii)	313,610	60
Share exchange (iv)	1,600,000	412
Share issue costs	–	(33)
Balance – 31 March 2014	**11,252,039**	**7,152**
Non-brokered unit private placement (vi)	15,529,984	2,329
Fair value of warrants (vi)	–	(1,090)
Conversion of convertible notes (vi)	2,510,058	540
Share issue costs	–	(181)
Fair value of warrants (vi)	–	(63)
Balance – 31 March 2015	**29,292,081**	**8,687**

	Number of common shares	Amount CAD $'000
Conversion of convertible notes (vii)	882,640	110
Non-brokered unit private placement (viii)	2,700,000	270
Fair value of warrants (viii)	–	(46)
Non-brokered unit private placement (ix)	4,214,125	337
Fair value of warrants (ix)	–	(107)
Non-brokered unit private placement (x)	5,780,688	463
Fair value of warrants (ix)	–	(181)
Settlement of debt (xi)	724,872	67
Share issue costs (x)	–	(22)
Balance – 31 March 2016	**43,594,406**	**9,578**

i) On 20 September 2013, the Company completed the private placement of 750,000 units at CAD $0.20 per unit for gross proceeds of CAD $150k. Each unit is comprised of one common share and one warrant exercisable at $0.25 until 20 September 2015. The fair value of the warrants was estimated at CAD $92k using the Black-Scholes pricing model. In connection with the unit private placement, the Company paid a finder's fee of CAD $15k and incurred CAD $171k of additional share issue costs.

ii) On 10 February 2014, the Company received TSX Venture Exchange approval for completion of a CAD $100k non-brokered private placement of 400,000 common shares at CAD $0.25 per share to an insider of the Company, Tonsenhagen Forretningssentrum AS (a related party of Erik Larre who is a director of the Company).

iii) On 19 February 2014, the Company issued 313,610 common shares as payment for services valued at CAD $60k based on the CAD $0.19 market price of the Company's shares on the date of issuance and recognised in the consolidated statement of income (loss) and comprehensive income (loss).

iv) On 7 March 2014, the Company issued 1,600,000 common shares to GRIT in exchange for 222,000 GRIT shares. The share exchange was recognised at the GBP 1.00 market value of the GRIT shares on the date of issuance, being GBP 222k (CAD $412k).

v) During the year ended 31 March 2015, the Company issued a total of 15,529,984 units at CAD $0.15 per unit for gross proceeds of CAD $2,329k. Each unit is comprised of one common share and one warrant exercisable at CAD $0.25 per share for a period of 36 months from the date of issuance. The fair value of the warrants was estimated at CAD $1,090k using the Black-Scholes pricing model (Note 4 (e)). In connection with the unit private placement, the Company incurred CAD $46k of issuance costs, paid finder's fees of CAD $135k and issued a total of 873,868 finder's warrants exercisable at CAD $0.25 for a period of 36 months from the date of issuance. The fair value of finder's warrants was estimated at CAD $64k using the Black-Scholes pricing model (Note 4 (e)). Officers and directors subscribed for an aggregate of 1,716,665 units for gross proceeds of CAD $258k.

vi) On 12 September 2014, the Company converted CAD $540k principal amount of convertible notes into 2,510,058 common shares at a conversion price of CAD $0.215 per share as disclosed in Note 16.

vii) On August 28, 2015, the Company converted CAD $110k principal amount of convertible notes into 882,640 common shares at a conversion price of CAD $0.125 per share.

viii) In September 2015, the Company completed the private placement of 2,700,000 units at CAD $0.10 per unit for gross proceeds of CAD $270k. Each unit is comprised of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at CAD $0.25 per share for a period of 36 months from the date of issuance. The grant date fair value of the warrants was estimated at CAD $46k using the Black-Scholes pricing mode (Note 4(e)).

ix) In November and December 2015, the Company completed a non-brokered private placement for an aggregate 4,214,125 units at CAD $0.08 per unit for gross proceeds of CAD $337k. Each unit is comprised of one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at CAD $0.25 per share for a period of 36 months from the date of issuance. The grant date fair value of the warrants was estimated at CAD $107k using the Black-Scholes pricing model (Note 4(e)).

x) In January to March 2016, the Company completed a non-brokered private placement for an aggregate 5,780,688 units at CAD $0.08 per unit for gross proceeds of CAD $463k. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at $0.15 per share for a period of 24 months from the date of issuance. The grant date fair value of the warrants was estimated at CAD $181k using the Black-Scholes pricing model (Note 4(e)). In connection with the private placement, the Company paid finder's fees of CAD $20k and issued a total of 82,733 finder's warrants exercisable at CAD $0.15 for a period of 24months from the date of issuance. The fair value of finder's warrants was estimated at CAD $2k using the Black-Scholes pricing model (Note 4 (e)).

xi) In March 2016, the Company issued 724,872 common shares at an average price of CAD $0.092 per share for the settlement of CAD $67k of debt owed to certain vendors.

13. Warrants CAD $

	Number of Warrants	Weighted average exercise price	Amount CAD $'000
Balance – 31 March 2013	**3,955,870**	**1.11**	**1,231**
Unit private placements	750,000	0.25	93
Finder's fees	75,000	0.25	–
Expired	(2,152,503)	(1.03)	(837)
Balance – 31 March 2014	**2,628,367**	**0.85**	**487**
Unit private placements	15,529,984	0.25	1,091
Finder's fees	873,868	0.25	62
Expired	(1,803,367)	(1.13)	(394)
Balance – 31 March 2015	**17,228,852**	**0.25**	**1,246**
Bond Units	1,740,000	0.25	20
Bond Units Finder's fee	67,500	0.25	2
Unit private placements	5,564,125	0.25	152
Unit private placements	5,780,688	0.15	181
Finder's fees	87,233	0.15	2
Expired	(825,000)	(0.25)	(93)
Balance – 31 March 2016	**29,638,898**	**0.23**	**1,510**

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

14. Financial assets at fair value through profit and loss

Financial assets	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Equity securities	378	34	8
Bonds	–	203	–
Total	378	237	8

(a) Equity securities

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

Equity securities	2014 CAD $'000	2015 CAD $'000	2015 CAD $'000
As at 1 April	–	378	34
Additions	412	–	–
Sale	–	(56)	–
(Loss) on sale	–	(136)	
FV movement	(31)	(161)	(27)
Foreign exchange	(3)	9	1
As at 31 March	**378**	**34**	**8**

(b) Bonds

The bonds relates to investments in equity instruments that do not have a quoted market price in an active market and cannot be reliably measured; in which case this investment is measured at cost.

Bonds	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
As at 1 April	–	–	203
Additions	–	203	110
Sale	–	–	(365)
(Loss) on sale	–	–	22
FV movement	–	–	27
Foreign exchange	–	–	3
As at 31 March	**–**	**203**	**–**

During the year ended 31 March 2016, the Company acquired US $84k(CAD $110k) of government issued bonds in Argentina. The bonds carried interest at a fixed rate of 7% per annum payable semi-annually, calculated on the basis of a 360 day year, and matured on 3 October 2015 with early redemption permitted at the option of the holder. The Company sold the bonds in July 2015.

15. Loans and Notes payable

Loans and Notes payable	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Notes payable – current	374	200	–
Loan payable – current	1,888	2,167	3,210
Loan payable – non-current	378	433	674
Total	**2,640**	**2,800**	**3,884**

(a) Notes payable

Notes payable	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
As at 1 April	427	374	200
Loan receipt	–	–	–
Change adjustment	15	37	–
Interest	19	64	75
Repayment	(87)	(275)	(275)
As at 31 March	**374**	**200**	**–**

The notes payable are secured by a mortgage over the oil properties in Argentina, and bear interest at 11% per annum.

(b) Loans payable

Loans – non-current	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
As at 1 April	–	378	433
Loan receipt	378	55	1,049
Change adjustment	–	–	1,493
Interest	–	–	235
Repayment	–	–	–
As at 31 March	**378**	**433**	**674**

Loans – current	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
As at 1 April	2,031	1,888	2,167
Loan receipt	(378)	(55)	–
Change adjustment		184	(1,493)
Interest	235	235	–
Repayment	–	(85)	–
As at 31 March	**1,888**	**2,167**	**3,210**

USD loan payable

On 20 January 2011, the Company obtained a loan of US $2million from a private lender. The loan was due to mature in January 2013, when it was extended. The loan was extended for an additional six months to July 2013. The loan is unsecured and initially bore interest at the fixed US prime rate of 3.25% plus 6.75%. The parties have entered into a number of subsequent agreements to amend and restate the loan (principally in order to amend the repayment schedule of the loan).

On 22 November 2012, the maturity date of the loan was extended to 21 July 2013. On 1 June 2013, the Company and the lender amended the maturity date of the loan to 1 June 2015. The Company granted a pledge over the shares in its subsidiary, Ingenieria Petrolera Patagonia Ltd and also agreed to use best efforts to cause its subsidiary Petrolera Patagonia Corporation Inc. to grant a security interest over the Group's Argentine operations. The lender has the right to participate in a portion of the profits from the eventual sale of any of the Company's operations in Argentina. The loan agreement also included the following terms:

- conversion of the loan to bonds; and
- subject to regulatory approval, the issuance to the lender of common share purchase warrants to purchase up to 500,000,000 common shares in the capital of the Company at an exercise price of $0.10 per common share (for which the fair value of the conversion feature was estimated to be a negligible amount);

As at 31 March 2015, the Company was indebted to the private lender in the amount of US $2,050k (CAD $2,600k), bearing fixed interest at 10% per annum.

All accrued and unpaid interest up to 1 June 2015 was to be paid in full by 1 June 2015, followed by equal monthly instalments of principal and interest until June 1, 2016.

On 30 July 2014, the term of the loan was extended to 36 months (i.e. 1 June 2016). In May 2015, the Company amended the loan payable repayment schedule and extended the maturity date from 1 June 2016 to 30 August 2016. Pursuant to the amended agreement, the Company was to make repayments of principal and interest in the amount of approximately US $17k per month from 1 June 2015 to 30 August 2016, a US $700k payment on 30 November 2015, a US $1,000k payment on 15 April 2016 and a final payment of approximately US $485k on 30 August 2016. The Company made and applied the monthly US $17k payments from 1 June 2015 to 31 December 2015 against accrued interest. The US $700k payment due on November 30, 2015 was not made.

In December 2015, the Company amended the loan agreement whereby CAD $135k of accrued and unpaid interest was added to the principal amount of the loan increasing the principal to US $2,185k (CAD $2,835k).

In addition, the loan maturity date was extended from 30 August 2016 to 31 March 2018 and the repayment schedule was amended to require a US $700k payment on 28 February 2016 or other date being agreed with the lender, repayments of principal and interest in the amount of US $20k per month from 5 April 2016 to 31 March 2018 and a final payment of approximately US $1,485k on 31 March 2018.

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

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

As at 31 March 2016, CAD $2,835k (2015 – CAD $2,167k) of principal is classified as a current liability; CAD $nil (2016 – CAD $433k) of principal is classified as long-term and CAD $157k (2015 – CAD $167k) of accrued interest is included in trade and other payables.

Euro bank debt

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

As at 31 March 2016, the principal balance of the loan was EUR 195k (CAD $288k) of which CAD $59k is classified as a current liability and CAD $229k is classified as long-term.

Euro bank debt

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

As at 31 March 2016, the principal balance of the loan was EUR 200k (CAD $282k) of which CAD $82k is classified as a current liability and CAD $200k is classified as long-term.

Euro loan payable

On 1 October 2015, the Company acquired a co-generation plant (Note 6) from a third party of which EUR 401k (CAD $595k) of the purchase price is in the form of a loan payable to the seller. The loan payable is secured by the co-generation plant and bears interest at 3.5% and is repayable in 30 monthly payments of principal and interest until 31 March 2018.

As at 31 March 2016, the principal balance of the loan was EUR 324k (CAD $478k) of which CAD $235k is classified as a current liability and CAD $243k is classified as long-term.

Cayman loan payable

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

16. Convertible Notes

Convertible Notes	**Debt component CAD $'000**	**Derivative liability CAD $'000**	**Face value CAD $'000**
Balance – 31 March 2013	**1,017**	**57**	**1,159**
Change in fair value	–	(56)	–
Accretion	105	–	–
Foreign exchange	144	–	191
Balance – 31 March 2014	**1,266**	**1**	**1,350**
Modifications	(775)	774	–
Conversion	(332)	(102)	(540)
Change in fair value	–	(514)	–
Accretion	419	–	–
Foreign exchange	4	–	1
Balance – 31 March 2015	**582**	**159**	**811**
Modifications	–	221	–
Conversion	(101)	(23)	(111)
Change in fair value	–	–	–
Accretion	187	–	–
Foreign exchange	28	–	31
Balance – 31 March 2016	**697**	**357**	**731**

- On 11 April 2012 the unsecured convertible notes for aggregate gross proceeds of $1,200k Norwegian Krone (CAD $213k), issued on 20 July 2011, were converted into 2,091,130 common shares at an exercise price of CAD $0.10 per common share for a gross total of CAD $209k.
- As at 31 March 2014, the Company held CHF 1.08million Swiss Francs (CAD $1.35million) of unsecured convertible notes bearing interest at 9% per annum, payable in arrears in equal

quarterly instalments and maturing on 11 January 2015. At any time prior to maturity and at the option of the note holder, the principal and any unpaid interest of a note may be converted into common shares of the Company at a price of CAD $1.50 per share.

On 21 August 2014, the Company reduced the conversion price to CAD $0.215 per share. The effect of the conversion price reduction has been accounted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be CAD $565k on the date of the modification.

On 12 September 2014, CHF 460k Swiss Francs (CAD $540k) of convertible notes were converted into 2,510,058 common shares and CAD $23k of accrued and unpaid interest forgiven resulting in the recognition of a CAD $82k loss on conversion of convertible notes in the 2015 consolidated statements of income (loss) and comprehensive income (loss).

On 12 December 2014, the Company extended the maturity date of the convertible notes to 11 January 2016. The effect of the extension has been counted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be CAD $129k on the date of modification.

On 30 March 2015, the Company extended the maturity date of the convertible notes to 11 January 2017. The effect of the extension has been counted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be CAD $81k on the date of modification.

On 7 July 2015, the Company amended the terms of the convertible notes whereby the conversion price was reduced from $0.215 per share to $0.125 per share and the rate of interest was reduced from 9% to 5%. The amended conversion price was based on the 7 July 2015 closing market price of the Company's shares. The effect of the amendments was not a substantial modification resulting in the de-recognition of the original liability and the recognition of a new liability. The reduction of the interest rate has been accounted for as a modification of the effective interest rate and amortised cost of the debt component and the reduction of the conversion price has been accounted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be $231k on the date of modification.

On 28 August 2015, CHF 80k Swiss Francs (CAD $111k) principal amount of convertible notes were converted into 882,640 common shares resulting in the revaluation of the derivative liability component at its fair value of $23k and the recognition of a $13k gain on conversion of convertible notes in the consolidated statement of loss and comprehensive loss for the year ended 31 March 2016

As at 31 March 2016, the Company held CHF 540k Swiss Francs (CAD $731k) (2015- CHF 620k Swiss Francs (CAD $810)) – of unsecured convertible notes. Interest is accrued and presented in trade and other payables in the amount of CAD $315k as at 31 March 2016 (2015 – CAD $236k and 2014 – CAD $157k).

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

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

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

17. Fair Value Movements

Fair Value Movements	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Financial assets	(31)	(298)	(8)
Convertible Notes	–	(82)	13
Derivative liability	56	514	(222)
Total	25	134	(217)

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for:

a) Property and equipment

The fair value of property and equipment recognised in a business combination is based on fair value at the date of acquisition.

b) Cash, trade and other receivables, trade and other payables, oil share agreement, notes payable and loan payable

The fair value of cash, trade and other receivables, trade and other payables, oil share agreement, note payable and loan payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

c) Marketable securities

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

d) Derivative liability

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

e) Stock options and warrants

The fair value of stock options and warrants is measured using a Black-Scholes pricing model.

f) Financial instruments

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

18. Share Based Payments

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

	Number of options	Weighted average exercise price
Balance – 31 March 2013 and 2012	280,000	$ 1.11
Expired	(66,000)	(1.00)
Balance – 31 March 2014	214,000	1.14
Expired	(39,000)	(1.77)
Balance – 31 March 2015	175,000	$ 1.00
Expired	(175,000)	(1.00)
Balance – 31 March 2016	–	–

As at 31 March 2016, the Company had nil stock options outstanding and exercisable.

No share options were issued under this plan in the three years presented and all options had fully vested and as a result there was no charge in the statement of comprehensive income in any of the years presented.

19. Oil share agreement

In connection with a business combination completed in July 2010, the Company entered into an oil share agreement pursuant to which, for a period of three years commencing 30 November 2010, the Company would provide the vendor with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil from the properties at a per barrel invoice price that exceeds US $42.00 but is less than or equal to US $52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US $52.00.

The term of the agreement ended on 2 November 2013. Accretion of the liability and the effects of revisions to estimates were recognised as royalty expense in the consolidated statements of income (loss) and comprehensive income (loss).

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

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Balance – beginning of year	687	876	1,005
Royalty expense	121	–	–
Foreign currency translation	68	129	23
Balance – end of year	876	1,005	1,028

20. Decommissioning obligation

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

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Balance – beginning of year	**1,283**	**7,277**	**5,779**
Business combination (Note 6)	1,119	–	11
Measurement adjustment (Note 6)	4,622	–	–
Change in estimate	(84)	(1,487)	2,163
Accretion	298	557	288
Foreign currency translation	39	(568)	(344)
Balance – end of year	**7,277**	**5,779**	**7,897**

The provision has been made by estimating the decommissioning cost at current prices using existing technology.

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

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

21. Staff cost

(a) *Employee compensation cost*

As at 31 March 2016, Zenith and its subsidiaries had 12 full time employees.

The following table details the amounts of total employee compensation included in the statements of income (loss) and comprehensive income (loss):

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Operating	909	1,290	983
General and administrative	304	564	433
Total employee compensation cost	1,213	1,854	1,416

(b) *Key management compensation*

The following table summarises annual compensation and long-term compensation of the Corporation's "Named Executive Officers" (as defined by Form 51-102F6) for the three most recently completed financial years that ended on 31 March 2016:

Name and principal position	Year[2]	Short term employee benefit CAD $'000	Other short term benefits CAD $'000	Other long term benefits CAD $'000	Termination benefits CAD $'000	Other benefits CAD $'000	Total CAD $'000
Andrea Cattaneo[1]	2014	124	Nil	Nil	Nil	153[3]	277
	2015	180	Nil	Nil	Nil	200[3]	380
	2016	303	Nil	Nil	Nil	Nil	303
Luigi Regis Milano[4]	2014	13	Nil	Nil	Nil	Nil	13
	2015	55	Nil	Nil	Nil	Nil	55
	2016	59	Nil	Nil	Nil	Nil	59
Jose Ramon Lopez-Portillo	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Dario Sodero[6]	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Erik Larre	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Francesco Salimbeni	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Nilesh Jagatia[5]	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

1. Andrea Cattaneo was appointed President and Chief Executive Officer effective 01 January 2009. As proposed by the Compensation Committee, Mr. Cattaneo's annual consulting fee payment is approximately CAD $200,000, payable in equal monthly instalments, plus benefits for the year ended 31 March 2015.
2. Financial years ended 31 March.
3. Bonus paid to CEO approved by the Board of Directors.
4. Luigi Regis Milano served as Chief Financial Officer from 28 November 2012 to 7 March 2016.
5. Nilesh Jagatia served as Chief Financial Officer from 7 March 2016 to 6 October 2016.
6. In the year ending 31 March 2016, Mr. Sodero received a fee for professional consulting services of approximately CAD$19,000.

22. Change in non-cash working capital

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Trade and other receivables	(351)	448	(136)
Inventory	(7)	(14)	(190)
Prepaid expenses	(190)	(13)	(164)
Prepaid property and equipment insurance	(510)	144	175
Trade and other payables	1,084	(189)	1,407
Total change in non-cash working capital	26	376	1,092

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

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Operating	(539)	47	898
Financing	–	30	159
Investing	565	299	35
Total change in non-cash working capital	26	376	1,092

23. Inventory

As at 31 March 2016, inventory consists of CAD $173k (2015 – CAD $65k and 2014 – CAD $48k) of crude oil that has been produced but not yet sold.

24. Earning per share amounts:

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Net (loss)/income	6,318	(2,376)	(7,675)
Weighted average number of shares – basic			
Issued common shares as at April 1	8,188,429	11,252,039	29,292,081
Effect of common shares issued during the year	587,793	9,893,479	3,723,640
Total	8,776,222	21,146,518	33,015,721
Earnings per share – basic and diluted – CAD $	0.72	(0.11)	(0.23)

(1) The Company did not have any in-the-money convertible notes, warrants and stock options during the years ended 31 March 2016, 2015 and 2014. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods. As a result diluted EPS equated to basic EPS for all years.

25. 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 2016, 2015 and 2014 not disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in general and administrative expenses for the year ended 31 March 2016 is CAD $282k (2015 – CAD $258k and 2014 – CAD $201k) charged by a company (Belpeso Ltd.) controlled by an officer and director of the Company (Andrea Cattaneo) for office rent and administrative services. As at 31 March 2016, CAD $nil (2015 and 2014 – CAD $nil) was included in trade and other payables in respect of these charges.

b) Included in interest expense is CAD $nil (2015 – CAD $2k; 2014 – CAD $5k) on CHF 50,000 Swiss Francs of convertible notes held by a company controlled by a director of the Company (Andrea Cattaneo), of which CAD $nil is included in trade and other payables as at 31 March 2016 (2015 – CAD $nil; 2014 – CAD $13k). These notes were converted to common shares and the related accrued and unpaid interest forgiven on 12 September 2014 (Note 16).

c) Included in trade and other payables is CAD $52k (2015 and 2014 – CAD $nil) due to officers and directors of the Company in respect of short term, non-interest bearing advances made to the Company.

d) Included in trade and other payables is CAD $9k (2015 – CAD $52k; 2014 – CAD $14k) due to officers and directors of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officers and directors will be reimbursed.

e) Details of Directors remuneration can be found in note 21 (b).

f) Included in trade and other payables is CAD $30k (2015 and 2014 – CAD $nil) due to officers and directors of the Company in respect of salaries.

g) On 6 August 2012, the Company issued 2,166,667 units at CAD $0.06 per unit for aggregate cash proceeds of CAD $130k. Each unit consists of one common share and one warrant exercisable at CAD $0.10 per share until 6 August 2013. Of the total units issued, 1,000,000 units were purchased by a corporation whose owner is a director of Canoel. The fair value of the warrants was estimated at CAD $69k using the Black-Scholes pricing model.

h) On 15 November 2012, the Company issued 2,944,900 units at CAD $0.06 per unit for aggregate cash proceeds of CAD $177k. Each unit consists of one common share and one warrant exercisable at CAD $0.10 per share until 15 November 2014. Of the total units issued, 833,333 units were purchased by a corporation whose owner is a director of Canoel Italia S.r.l. The fair value of the warrants was estimated at CAD $53k using the Black-Scholes pricing model.

26. Financial risk management

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 2016.

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, deposits and assets held for sale 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 Company's maximum credit risk exposure is limited to the carrying amount cash of CAD $138k (2015 – CAD $936k and 2014 – CAD $711k) and trade and other receivables of CAD $787k (2015 – CAD $960k and (2014 – CAD $1,468k).

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

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

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Oil and natural gas sales	909	383	475
Stamp tax and other tax withholdings	236	234	217
Goods and services tax	11	17	12
Other	312	326	83
	1,468	960	787

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

The Company considers its receivables to be aged as follows:

	2014 CAD $'000	2015 CAD $'000	2016 CAD $'000
Current	1,185	691	543
90 + days	283	269	244
	1,468	960	787

b) ***Liquidity risk***

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

As at 31 March 2016, the Company had CAD $8,200k (2015 – CAD $5,607k and 2014 – CAD $6,879k) of current liabilities. The Company's CAD $137k (2015 – CAD $936k and 2014 – CAD $711k) cash balance is insufficient to settle the current liabilities.

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

	Carrying Amount CAD $'000	Contractual cash flow CAD $'000	Due on or before 31 March 2017 CAD $'000	Due on or before 31 March 2018 CAD $'000	Due between April 2018 and August 2020 CAD $'000
Trade and other payables	3,266	3,266	3,266	–	–
Oil share agreement	1,027	1,027	1,027	–	–
Loan payable	3,884	4,848	4,132	415	301
Convertible notes	697	872	872	–	–
Bonds payable	563	676	65	65	546
	9,437	10,689	9,362	480	847

c) ***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		
	2014	**2015**	**2016**	**2014**	**2015**	**2016**
Argentine Peso	0.1380	0.1438	0.0889	0.1753	0.1357	0.1270
US dollars	1.1055	1.2683	1.2971	1.0534	1.1387	1.3114
Euro	1.5227	1.3623	1.4775	1.4126	1.4382	1.4476
Swiss Franc	1.2501	1.3057	1.3535	1.1491	1.2248	1.3478
British Pound	–	1.8834	1.8652	–	1.8320	1.9755

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at 31 March 2016, 2015 and 2014 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	2014	**2015**	**2016**
Argentine Peso	–	(14,100)	57,500
US dollars ($)	252,900	270,200	284,400
Euro	–	10,400	134,500
Swiss Franc	150,700	104,500	104,500
British Pound	–	3,400	53,300
	403,600	374,400	634,200

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 2016, a 5% change in the price of natural gas produced in Italy would represent a change in net income for the year ended 31 March 2016 of approximately CAD $23k (2015 – CAD $54k and 2014 – CAD $45k) 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 2016 of approximately CAD $13k (2015 and 2014 – CAD $Nil).

Oil prices in Argentina are the results of formulas that are set by refineries based on instructions or decrees from the government/regions and crude oil prices in Argentina are capped by the Government at variable levels. As at 31 March 2016, a 5% change in the price of oil would represent a change in net (loss) for the year ended 31 March 2016 of approximately CAD $(64k) (2015- CAD $(186k) and 2014 – CAD $(145k)).

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 Company has fixed interest on notes payable, loans payable and convertible notes and therefore is not currently exposed to interest rate risk.

27. Capital management

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to explore and develop its projects to provide returns for shareholders and benefits for other stakeholders. The Company manages its working capital deficiency, long-term debt, and shareholders' deficit as capital.

	2014	**2015**	**2016**
	CAD $'000	**CAD $'000**	**CAD $'000**
Working capital deficiency	4,273	3,407	6,709
Long-term debt	378	1,016	1,237
Shareholders' equity	5,575	4,289	(2,278)

The Company's cash flows from the Argentinian and Italian operations will be needed in the near term to finance the operations and repay vendor loans. Therefore, the Company's principal source of funds will remain the issuance of common shares. The Company's ability to raise future capital through equity is subject to uncertainty and the inability to raise such capital may have an adverse impact over the Company's ability to continue as a going concern.

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

28. Operating segments

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

The Company has three reportable segments which are as follows:

- Argentina;
- Italy, which commenced gas operations following the acquisition of assets in June 2013 (Note 8); and,
- Other, which includes corporate assets and the operations in the Canadian and US entities.

None of these individual segments meet the quantitative thresholds for determining reportable segments in 2016, 2015 or 2014.

YEAR 2014	**Argentina CAD $'000**	**Italy CAD $'000**	**Other CAD $'000**	**Total CAD $'000**
Property and equipment	3,267	15,986	–	19,253
Other assets	1,048	1,626	480	3,154
Total liabilities	5,380	6,779	4,673	16,832
Capital Expenditures	(7)	(325)		(332)
Revenue	3,207	902	–	4,109
Royalties	(300)	–	(121)	(421)
Operating and transportation	(1,365)	(629)	–	(1,994)
General and Administrative	(421)	(257)	(1,702)	(2,380)
Depletion and depreciation	(556)	(228)	–	(784)
Gain on business combination	–	12,193	–	12,193
Other expense	–	(4,622)	–	(4,622)
Finance and other expenses	(554)	(122)	(549)	(1,225)
Segment income/(loss)	**11**	**7,237**	**(2,372)**	**4,876**

YEAR 2015	**Argentina CAD $'000**	**Italy CAD $'000**	**Other CAD $'000**	**Total CAD $'000**
Property and equipment	2,250	14,443	–	16,693
Other assets	931	1,121	501	2,553
Total liabilities	5,184	5,469	4,304	14,957
Capital Expenditures	(929)	(241)		(1,170)
Revenue	3,707	1,077	–	4,784
Royalties	(345)	–	–	(345)
Operating and transportation	(1,438)	(375)	–	(1,813)
General and Administrative	(642)	(475)	(1,578)	(2,695)
Depletion and depreciation	(381)	(287)	–	(668)
Gain on business combination	–	–	–	–
Other expense	–	–	–	–
Finance and other expenses	(627)	(127)	(786)	(1,540)
Segment (loss)/income	**274**	**(187)**	**(2,364)**	**(2,277)**

YEAR 2016	Argentina CAD $'000	Italy CAD $'000	Other CAD $'000	Total CAD $'000
Property and equipment	3,177	11,421	–	14,598
Other assets	504	959	236	1,699
Total liabilities	5,378	7,134	6,063	18,575
Capital Expenditures	(237)	(178)		(415)
Revenue	1,284	791	–	2,075
Royalties	(115)	–	–	(115)
Operating and transportation	(1,341)	(692)	–	(2,033)
General and Adinistrative	(420)	(490)	(2,188)	(3,098)
Depletion and depreciation	(66)	(267)	–	(332)
Impairment of property and equipment	–	(5,025)	–	(5,025)
Other expense	796	(68)	(295)	433
Finance and other expenses	(275)	(122)	(697)	(1,094)
Segment (loss)/income	**(136)**	**(5,873)**	**(3,180)**	**(9,189)**

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

	2014 CAD $000	2015 CAD $000	2016 CAD $000
Customer A	–	458	–
Customer B	508	–	–
Customer C	3,207	3,707	1,284

29. Controlling party

At as of the end of the financial year ending 31 March 2016, the Directors do not consider there to be a controlling party.

30. Post Balance Sheet events

a) In April and June 2016, the Company completed non-brokered private placements for the issuance of an aggregate 12,086,900 units at CAD $0.08 per unit for gross proceeds of CAD $967k, of which CAD $134k was received in March 2016 and is included in trade and other payables as at 31 March 2016. Each unit is comprised of one common share and one warrant exercisable at CAD $0.15 per share for a period of 24 months from the date of issuance. In connection with the private placement, the Company paid a finder's fees of CAD $40k and granted 504,712 finder's warrants exercisable at CAD $0.15 for a period of 24 months from the date of issuance.

b) In June 2016, the Company issued 472,500 common shares for the settlement of CAD $45k of debt owed to certain vendors. On 17 June 2016, 160,000 of the 472,500 common shares (which 160,000 common shares had been issued at a price of $0.087 per common share) were cancelled.

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

d) In May 2016, the Company amended the loan payable to extend the payment date of the USD $700k principal payment to 5 June 2016. The Company did not make the USD $700k payment on 5 June 2016 nor has the lender indicated any intention to convert the outstanding debt to equity. In August 2016, the Company amended the terms of the repayment so that a US $700k payment is payable on 15 October 2016 and a final payment of approximately US $1,485,337 is due on 31 March 2018.

e) In July 2016, the Company sold 116,913 shares of GRIT for gross cash proceeds of CAD $11k.

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

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

h) In August 2016, subject to approval by the TSX Venture Exchange, the Company entered into an agreement to amend the terms of its unsecured convertible notes from 11 January 2017 to 11 January 2018.

i) On 11 August 2016, the process of handover of the technical assets of the three fields, Muradkhanli, Jafarli and Zardab in Azerbaijan was completed.

Business combination (acquisition)

On 26 January 2016 the Company registered a branch of Zenith Aran, a wholly owned subsidiary of the Company, in Baku, Azerbaijan, to have an operating entity in Azerbaijan for the management of the Azerbaijan oil properties.

Zenith Aran was incorporated in the British Virgin Islands under the BVI Business Companies Act, 2004, on the 27th of November 2015.

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

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

As a part of the Handover, an inventory of equipment and material was prepared and the volumes of oil in the pipelines and tanks were recorded. Any revenues related to the existing oil as at the date of Handover were allocated to SOCAR. The Azerbaijani Operations have generated revenues for the Company since the completion of the transfer to Aran Oil.

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

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

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

The valuations of the Azerbaijani asset and of the liabilities have been based on the net present value of future cash flows included in the evaluation report prepared for the Company by Chapman Petroleum relating the oil and gas reserves owned by the Company as of 31 March 2016 and published on 15 June 2016 (the "March Evaluation Report").

Summary Statements of Financial Position

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

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

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

D&P assets

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

Decommissioning provisions

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

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

Compensatory oil

Zenith Aran and SOA have an obligation to:

1. within one year following the Effective Date, deliver at no charge to SOCAR 5% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter; and

2. commencing on the first anniversary of the Effective Date, start delivering, at no charge to SOCAR, 15% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter,

until the amount delivered is the equivalent of 45,000 tons of "compensatory" crude oil to SOCAR.

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

Capital Costs

During the period from handover to 30 September 2016 the Company achieved a production of about 275 barrels of oil per day, although they have produced much larger quantities previously (Source: SOCAR). Gas is also produced, but in low quantities and is used at the sites.

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

The following information relating to capital costs and the Company's workover plans in Azerbaijan is derived from the March Evaluation Report. The information contained in the CPR supersedes this information:

Between 2016 and 2018, the Company plans to workover a total of 44 existing wells in Azerbaijan which are currently inactive or produce at low rates (< 5 STB/d) to bring rates up to 10 to 15 STB/d per well using improved technology, non damaging fluids and optimised treatments. It is estimated that 10 wells will be worked over in 2016, 16 wells in 2017 and 18 wells in 2018. This programme has commenced using the existing workover rig in the field and the Company intends to purchase one or two modern workover rigs to optimise the completion and workover of the wells, within the next four years.

In addition to the marginal producing wells, five non-producing wells in the Maykop zone in the Zardab field in Azerbaijan are expected to be worked over in 2017 and to be returned to production once the existing wellbore and sand production issues have been resolved.

The Company intends to acquire one modern drilling rig capable of drilling 4,500m to carry out a fifteen year drilling programme. It is anticipated that five new wells will be drilled in 2018 and ten wells in each year thereafter until the anticipated drilling programme is complete in 2032.

During the first four years of the REDPSA it is estimated that US$2,500k will be spent upgrading the gathering system and central facilities in Azerbaijan to improve safety, efficiency and handle higher production rates. During the same period, 39 active wells currently producing at marginal rates will be worked over at an estimated cost averaging US$150k per well.

It is anticipated that in 2017 five shut-in wells completed in the Maykop formation will be worked over to control sand production, at an estimated cost of US$200k per well, and returning to an increase of production at a total of 200STBl/d.

It is envisaged that development drilling will commence in 2018 and continue until 2032. It has been estimated that each well with proved reserves will cost approximately US$4,300k. This cost will include the direct cost of materials, fuel, salaries, etc. to drill the well and an allocation for the purchase of one drilling rig, well completion and tie-in.

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

Each well in the proved plus probable category is expected to cost approximately US$5,000k. This category of reserves includes those additional reserves that are less certain to be recovered than proved reserves.

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

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

j) On 11 August 2016 the Company assumed control of crude oil production of approximately 275 barrels of oil per day in Azerbaijan.

k) In August 2016 the Company amended the terms of repayment of the USD loan such that a USD $700,000 payment became payable on 15 October 2016 and a final payment of approximately USD $1,485,337 became due on 31 March 2018.

l) On 9 August 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a loan agreement (with partial drawdown allowed) with Rabitabank Open Joint Stock Company in Baku for the amount of USD $320,000 (CAD$ 413,000). The loan could be drawn down in tranches and as at 30 September 2016 it was fully drawn down. The lender can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown or if the REDPSA is terminated. The principal amount of the loan agreement and accrued interest is payable in two tranches: USD$160,000 was payable on 22 November 2017 and the remaining USD$160,000 is payable on 22 February 2017.

m) On 30 September 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a second loan agreement (with partial drawdown allowed) with Rabitabank Open Joint Stock Company in Baku for the amount of USD $200,000. The principal amount of the second loan agreement and accrued interest is payable in two tranches: USD$100,000 is payable on 3 January 2017 and the remaining USD$100,000 is payable on 3 April 2017.

n) On 10 October 2016 the Company 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 $190,605. 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.

o) On 19 October 2016, the Company issued 724,235 Common Shares at a deemed price of CAD $0.085 per Common Share to certain debtholders and creditors of the Company to settle debts owing by the Company, representing an aggregate of CAD $61,585.48.

p) In November 2016 the Company amended the terms of the repayment of the USD$ 700,000 of the USD Loan to 20 December 2016.

q) In November 2016 the Company hired Mr. Alan Hume as its CFO.

r) In November the Company repaid half of the outstanding principle of the USD$ 320k loan agreement with Rabitabank.

s) On 7 November 2016, the Company 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 $329,407.44. Insiders of the Company subscribed for an aggregate of 2,195,475 units for aggregate subscription proceeds of CAD $263,457. 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.

t) On 21 November 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a third loan agreement with Rabitabank Open Joint Stock Company in Baku for the amount of USD $55k. The principal amount of the second loan agreement and accrued interest is payable in full on 21 February 2017.

u) On 22 November 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a fourth loan agreement with Rabitabank Open Joint Stock Company in Baku for the amount of USD $55k. The principal amount of the second loan agreement and accrued interest is payable in full on 22 February 2017.

v) On 22 November 2016, Gunsynd Plc (a company listed on the London Stock Exchange's AIM market for listed securities) subscribed for £100,000 of convertible unsecured loan notes bearing interest of 3% per annum. The principal of the loan notes is convertible into Common Shares of the Company at any time prior to the expiry of 36 months from issuance at a price equal to CAD $0.10 per Common Share (or the initial listing price of the Common Shares if the Company is listed on another senior stock exchange at the time of such conversion).

w) In December 2016 the Company amended the terms of the repayment of the USD$ 700,000 of the USD loan to 10 January 2017.

x) In January 2017 the Company amended the terms of the repayment of the USD$ 700,000 of the USD loan to 15 January 2017.

y) Competent Persons Report

The Competent Persons Report includes a change in the valuation of the Azeri asset which has arisen due to amendments to the development plan and the postponement of drilling. These changes have occurred due to delays in handover (completed 11 August 2016) and Admission of the Company to the London Stock Exchange.

The revised valuation of the assets and liabilities acquired along with the revised NPV of the Azeri asset can be found below:

Fair Value of Assets and Liabilities acquired (CAD$'000)	**March Evaluation Report (31 March)**	**CPR (31 August)**	**Differences**
D&P assets	1,052,765	990,602	(62,163)
Compensatory Oil*	(1,997)	(1,833)	164
Capital Costs*	(285,549)	(266,901)	18,648
Foreign Currency Translation	7,913	7,913	–
Decommissioning Obligations	(1,943)	(1,790)	153
Gain on business acquisition	**771,189**	**727,991**	**(43,198)**
Taxation	(153,044)	(144,374)	8,670
Net NPV of the assets	**618,145**	**583,617**	**(34,528)**

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

In accordance with IFRS 3 "Business Combinations" management have a one year "measurement period" in respect of the acquisition and therefore the figures used within these calculations may be subject to change.

31. Nature of financial information

The consolidated and combined financial information above does not constitute statutory financial statements of the Zenith Energy Ltd. for each of the three years ended 31 March 2016, 2015 and 2014.

Unaudited Interim Financial Information for six months ended 30 September 2016 and comparative period (30 September 2015)

Set out below are the unaudited result of the Group for the six months ended 30 September 2016, together with the unaudited results for the comparative period (30 September 2015).

Statement of Comprehensive Income

		Six months ended	
Continuing operations	**Notes**	**30 September 2016 CAD $000 Unaudited**	**30 September 2015 CAD $000 Unaudited**
Revenue		1,067	1,532
Royalties		(7)	(108)
Cost of Sales			
Production Costs		(785)	(866)
Depletion and depreciation	4	(204)	(194)
Gross (Loss)/Profit		71	364
Administrative expenses		(1,796)	(1,341)
Gain on business acquisition	5	771,189	–
Operating Profit/(Loss)		769,464	(977)
Fair value movements		–	166
Gain(loss) on sale of marketable securities		4	–
Foreign exchange		90	97
Interest expense		(245)	(503)
Profit/(loss) for the year before taxation		769,313	(1,217)
Taxation	6	(153,044)	–
Profit/(loss) for the year attributable to owners of the parent		616,269	(1,217)
Other Comprehensive Income			
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange		(8,195)	784
Total comprehensive Income for the year attributable to owners of the parent		608,074	(433)
Earnings per share (CAD$)			
Basic	13	**10.39**	**(0.04)**
Diluted	13	**6.23**	**(0.04)**

Statement of Financial Position

	Notes	Six months ended 30 September 2016 CAD $000 Unaudited	30 September 2015 CAD $000 Unaudited
ASSETS			
Non-current assets			
Property, Plant and Equipment	4	1,066,801	17,413
Other receivables		167	292
		1,066,968	17,705
Current Assets			
Inventory	14	317	215
Trade and other receivables		1,547	920
Financial Instrument		353	395
Cash and cash equivalents		126	522
		2,343	2,052
TOTAL ASSETS		**1,069,311**	**19,757**
EQUITY AND LIABILITIES			
Equity attributable to equity holders for the parent			
Share Capital	7	10,351	8,930
Share option reserves		2,247	1,230
Contributed Surplus		2,231	2,231
Retained earnings		592,476	(8,215)
Total equity		**607,305**	**4,176**
Non current liabilities			
Loans	8	2,665	262
Convertible loans	9/10	887	1,226
Decommissioning provision	11	9,793	5,516
Deferred Consideration payable	5	287,044	–
Deferred taxation	6	153,928	2,398
Total non current liabilities		**454,317**	**9,402**
Current Liabilities			
Trade and other payables		4,033	2,315
Oil share agreement		1,039	1,061
Loans	8	1,503	2,803
Deferred Consideration payable	5	502	–
Convertible loans	9/10	612	–
Total current liabilities		**7,689**	**6,179**
TOTAL EQUITY AND LIABILITIES		**1,069,311**	**19,757**

Consolidated and combined statements of cash flows

	Notes	30 September 2016 CAD $000 Unaudited	30 September 2015 CAD $000 Unaudited
Operating activities			
Profit/(Loss) for the period		616,269	(1,217)
Items not involving cash:			
Loss on sale of marketable securities		(4)	–
Fair value adjustment on marketable securities		–	(166)
Foreign exchange on translation		61	(49)
Shares issued from debt conversion		214	–
Gain on business acquisition	5	(771,189)	–
Deferred taxation	6	153,044	–
Impairment of property and equipment		1	–
Depletion and depreciation	4	204	194
Finance expense		42	240
Operating cash flow before changes in working capital		**(1,358)**	**(998)**
Change in non-cash working capital	12	(177)	(309)
Net cash flows from operating activities		(1,535)	(1,307)
Investing activities			
Purchase of marketable securities		–	362
Proceeds on sale of marketable securities		11	(137)
Expenditures on property and equipment	4	(31)	(260)
Change in non-cash working capital	12	3	55
Net cash flows generated from/(used in) investing activities		**(17)**	**20**
Financing activities			
Repayment of notes payable		–	(204)
Net proceeds from issue of share capital		1,116	270
Net proceeds from issuance of bonds		191	518
Net proceeds from bank loan		236	307
Change in non-cash working capital	12	–	(31)
Net cash flows generated from financing activities		**1,543**	**860**
Net (decrease)/increase in cash		(9)	(427)
Foreign exchange effect on cash held in foreign currencies		(3)	13
Cash at beginning of year		138	936
Cash at end of year		**126**	**522**

Statement of Changes in Equity

	Share Capital CAD $'000	Share Option Reserve CAD $'000	Contributed surplus CAD $'000	Retained earnings CAD $'000	Total CAD $'000
Balance as at 01 April 2016	**9,578**	**1,510**	**2,231**	**(15,598)**	**(2,279)**
Profit for the period	–	–	–	616,269	616,269
Other comprehensive income	–	–	–	(8,195)	(8,195)
Total comprehensive income	–	–	–	608,074	608,074
Share issue net of costs – conversion of loan notes	300	–	–	–	300
Share issue net of costs – private placement	1,210		–	–	1,210
Balance as at 30 September 2016	**10,351**	**2,247**	**2,231**	**592,476**	**607,305**

Statement of Changes in Equity

	Share Capital CAD $'000	Share Option Reserve CAD $'000	Contributed surplus CAD $'000	Retained earnings CAD $'000	Total CAD $'000
Balance as at 1 April 2015	**8,687**	**1,246**	**2,138**	**(7,782)**	**4,289**
Loss for the period	–	–	–	(1,217)	(1,217)
Other comprehensive income	–	–	–	784	784
Total comprehensive income/(loss)	–	–	–	(433)	(433)
Share issue net of costs – private placement	270	–	–	–	270
Fair value of warrants	(27)	77	–	–	50
Expired options	–	(93)	93	–	–
Balance as at 30 September 2015	**8,930**	**1,230**	**2,231**	**(8,215)**	**4,176**

Reserve	**Description and purpose**
Share capital	Amount subscribed for share capital
Share option reserve	Represents the cumulative charge to the statement of comprehensive income for share options
Contributed surplus	Expired share options
Acquisitions Reserve	Relates to the fair value of Equipment & Motor Vehicles in Azerbaijan, subsequent the handover
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income

Notes to the consolidated and combined financial information

1. General Information

Zenith Energy Ltd. ("Zenith" or the "Company") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on 20 September 2007. The address of the Company's registered office is 20th Floor, 250 Howe Street, Vancouver BC V6C 3R8, Canada. The Company is primarily involved in the exploration for, development of and production of oil and natural gas properties primarily in Argentina, Azerbaijan and Italy.

The financial statements are presented in Canadian Dollars ("CAD", "CAD$" or "$") and have been rounded to the nearest thousand (CAD$000) except where otherwise indicated.

The nature of the business is not subject to seasonal variations.

The Directors do not propose the payment of interim dividends (30 September 2015 – nil).

2. Going concern

As at 30 September 2016, the Company has a working capital deficit of $4,844k (30 September 2015 – $4,128k) and an accumulated surplus of $602,611k (30 September 2015 – deficit $7,188k), and may incur future losses in the development of its business.

Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and attain future profitable operations in Argentina, Azerbaijan and Italy. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

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

The Company is aware that emerging markets such as Azerbaijan are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies, such as Azerbaijan's, are subject to rapid change and that the information set out in this Document may become outdated relatively quickly.

The disruptions recently experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

Critical Accounting Estimates and Judgements

The Group 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.

Valuation of the assets and liabilities associated with the Azerbaijan acquisition this assessment involves:

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

During the six months ended 30 September 2016 the Company recognised a value of assets and associated liabilities for its Azerbaijan Assets acquired, including the payments due in respect of the acquisition relating to royalties, work and exploration programmes and taxation. The valuations of the Azerbaijani asset and of the liabilities have been based on the net present value ("NPV") of future cash flows included in the evaluation report prepared for the Company by Chapman Petroleum relating the oil and gas reserves owned by the Company as of 31 March 2016 and published on 15 June 2016 (the "March Evaluation Report"). The NPV of future cashflows was discounted at a rate of 10%. The Board considers 10% an appropriate rate of discount for the following reasons:

- The Asset has a verified producing history as well as current production;
- The Asset is production & development with 2P reserves (made by way of a National Instrument 51-101) based over an acreage of 642 square kilometres comprised of different structures;
- The Asset is low cost and onshore presenting a low operational risk;
- Azerbaijan has one of the world's oldest established Oil & Gas industries;
- Azerbaijan has a stable political environment with a government that has guaranteed and supported the licence rights of companies operating in the Oil & Gas industry since its independence in 1992
- Crude oil is exported via two different pipelines, one delivering oil to the Mediterranean Sea and the other in the Black Sea, thereby de-risking routes to market from both a political and logistical perspective.

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.

3. Basis of preparation

The interim consolidated financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Statement". The accounting policies adopted are in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The accounting policies and methods of computation used in this consolidated financial information are consistent with those applied elsewhere in the prospectus and are expected to be applied for the year ended 31 March 2017.

There are no changes to the critical accounting estimates and judgments made by management from those disclosed in the current financial information presented in this report.

4. Property and equipment:

	D&P assets Cost CAD $000	Furniture & fixtures CAD $000	Total CAD $000
Balance – 1 April 2016	**21,612**	**52**	**21,664**
Acquisition	1,052,765	10	1,052,775
Additions	31	–	31
Decommissioning obligations	(2)	–	(2)
Foreign currency translation	(149)	(2)	(151)
Balance – 30 September 2016	**1,074,257**	**60**	**1,074,317**
Accumulated depletion and depreciation			
Balance – March 31, 2016	**(7,027)**	**(39)**	**(7,066)**
Depletion and depreciation	(202)	(2)	(204)
Foreign currency translation	(248)	2	(246)
Balance – 30 September 2016	**(7,477)**	**(39)**	**(7,516)**
Net book value at 30 September 2016	**1,066,780**	**21**	**1,066,801**

	D&P assets Cost CAD $000	Furniture & fixtures CAD $000	Total CAD $000
Balance – 1 April 2015	**18,600**	**84**	**18,684**
Additions	260	–	260
Decommissioning obligation revisions	(686)	–	(686)
Foreign currency translation	1,392	(1)	1,391
Balance – 30 September 2015	**19,566**	**83**	**19,649**
Accumulated depletion and depreciation			
Balance – 01 April 2015	**(1,934)**	**(57)**	**(1,991)**
Depletion and depreciation	(191)	(3)	(194)
Foreign currency translation	(52)	1	(51)
Balance – 30 September 2015	**(2,177)**	**(59)**	**(2,236)**
Net book value at 30 September 2015	**17,389**	**24**	**17,413**

The depletion calculation for the six months ended 30 September 2016 included estimated future development costs of $2.7 million for proved and probable reserves (30 September 2015 – $2.8 million).

The Company did not identify any indicators of impairment at 30 September 2016.

5. Business combination

Azerbaijan

On 26 January 2016 the Company registered a branch of Zenith Aran, a wholly owned subsidiary of the Company, in Baku, Azerbaijan, to have an operating entity in Azerbaijan for the management of the Azerbaijan oil properties.

Zenith Aran was incorporated in the British Virgin Islands under the BVI Business Companies Act, 2004, on the 27th of November 2015.

On 16 March 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into the REDPSA with SOCAR and SOA. The REDPSA covers 642 square kilometres which include the active Muradkhanli, Jafarli and Zardab oil fields located in the Lower Kura Region, about 300 kilometres inland from the city of Baku, in Azerbaijan (the "Azerbaijani Operations"). Pursuant to the terms of the

REDPSA, the Company and SOA have the exclusive right to conduct petroleum operations from the Azerbaijani Operations, through a newly incorporated operating company, Aran Oil Operating Company Limited (“Aran Oil”). Aran Oil, in which Zenith has an 80% interest, is the operator of the concession, with the remaining 20% interest being held by SOA.

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

As a part of the Handover, an inventory of equipment and material was prepared and the volumes of oil in the pipelines and tanks were recorded. Any revenues related to the existing oil as at the date of Handover were allocated to SOCAR. The Azerbaijani Operations have generated revenues for the Company since the completion of the transfer to Aran Oil.

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

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

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

As stated above, the valuations of the Azerbaijani asset and of the liabilities have been based on the net present value of future cash flows included in March Evaluation Report.

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

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

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

D&P assets

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

Decommissioning provisions

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

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

Compensatory oil

Zenith Aran and SOA have an obligation to:

1. within one year following the Effective Date, deliver at no charge to SOCAR 5% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter; and

2. commencing on the first anniversary of the Effective Date, start delivering, at no charge to SOCAR, 15% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter,

until the amount delivered is the equivalent of 45,000 tons of "compensatory" crude oil to SOCAR.

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

Capital Costs

During the period from handover to 30 September 2016 the Company achieved a production of about 275 barrels of oil per day, although they have produced much larger quantities previously (Source: SOCAR). Gas is also produced, but in low quantities and is used at the sites.

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

The following information relating to capital costs and the Company's workover plans in Azerbaijan is derived from the March Evaluation Report. The information contained in the CPR supersedes this information:

Between 2016 and 2018, the Company plans to workover a total of 44 existing wells in Azerbaijan which are currently inactive or produce at low rates (< 5 STB/d) to bring rates up to 10 to 15 STB/d per well using improved technology, non damaging fluids and optimised treatments. It is estimated that 10 wells will be worked over in 2016, 16 wells in 2017 and 18 wells in 2018. This programme has commenced using the existing workover rig in the field and the Company intends to purchase one or two modern workover rigs to optimise the completion and workover of the wells, within the next four years.

In addition to the marginal producing wells, five non-producing wells in the Maykop zone in the Zardab field in Azerbaijan are expected to be worked over in 2017 and to be returned to production once the existing wellbore and sand production issues have been resolved.

The Company intends to acquire one modern drilling rig capable of drilling 4,500m to carry out a fifteen year drilling programme. It is anticipated that five new wells will be drilled in 2018 and ten wells in each year thereafter until the anticipated drilling programme is complete in 2032.

During the first four years of the REDPSA it is estimated that US$2,500k will be spent upgrading the gathering system and central facilities in Azerbaijan to improve safety, efficiency and handle higher production rates. During the same period, 39 active wells currently producing at marginal rates will be worked over at an estimated cost averaging US$150k per well.

It is anticipated that in 2017 five shut-in wells completed in the Maykop formation will be worked over to control sand production, at an estimated cost of US$200k per well, and returning to an increase of production at a total of 200STBl/d.

It is envisaged that development drilling will commence in 2018 and continue until 2032. It has been estimated that each well with proved reserves will cost approximately US$4,300k. This cost will include the direct cost of materials, fuel, salaries, etc. to drill the well and an allocation for the purchase of one drilling rig, well completion and tie-in.

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

Each well in the proved plus probable category is expected to cost approximately US$5,000k. This category of reserves includes those additional reserves that are less certain to be recovered than proved reserves.

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

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

	6 months	
DEFERRED CONSIDERATION PAYABLE	**30 September 2016 CAD $000**	**30 September 2015 CAD $000**
Compensatory Oil		
Current portion	28	–
Non-Current portion	1,969	–
Capital costs		–
Current portion	474	–
Non-Current portion	285,075	
As of 30 September	287,546	–
Deferred Consideration payable current	502	–
Deferred Consideration payable non-current	287,044	–
As of 30 September	287,546	–

6. Taxation

	30 September 2016 CAD $000	**30 September 2015 CAD $000**
Current tax	–	–
Deferred tax	153,928	–
Total tax	153,928	–

The deferred tax charge for the period has arisen as a result of the acquisition of the assets in Azerbaijan. No tax charge or credit arises on the loss for the period.

There is a potential deferred tax asset of approximately £105,000 (2014: £27,000) which has not been recognised in the Financial Statements due to uncertainty over the timing of future taxable profits against which the losses may be offset. No deferred tax asset has been recognised as a result. UK tax losses can be carried forward indefinitely and used against future taxable income.

The standard rate of Corporation Tax in the UK changed from 21% to 20% on 1 April 2015.

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

TAXATION	6 months 30 September 2016 CAD $000	 30 September 2015 CAD $000
Balance as of 01 April	884	2,398
Expected tax provision on business combination	153,044	–
As of 30 September	153,928	2,398

The tax reduction for the 6 months ended 30 September 2016 and 2015 is comprised of deferred tax reduction.

The provision for the 6 months ended 30 September 2016 is related to the expected taxation of the profitability of the assets that the Company acquired in Azerbaijan (see note 5).

7. Share Capital

	Number of shares	Amount CAD $000
Balance – 01 April 2016	43,594,406	9,578
Unit private placement proceeds	17,759,685	1,510
Fair value of warrants	–	(737)
Balance – 30 September 2016	61,354,091	10,351

1. On 11 April 2016 the Company completed the private placement of 6,674,775 shares at CAD$0.08 per unit for gross proceeds of CAD$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 Company also paid aggregate finders' fees of CAD$28k.

2. On 21 April 2016, the Company completed the private placement of 3,892,875 shares at CAD$0.08 per unit for gross proceeds of CAD$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 Company also paid aggregate finders' fees of CAD$14k and issued 179,712 warrants to certain arm's-length parties in the connection with the Private Placement.

3. On 9 June 2016, the Company issued 2,730,000 Common Shares at a deemed price of CAD $0.11 per Common Share, 312,500 Common Shares at a price of $0.10 per Common Share and 160,000 Common Shares at a price of $0.087 per Common Share to certain debtholders and creditors of the Company to settle debts owing by the Company, representing in aggregate of CAD $345,473. On 17 June 2016, the 160,000 Common Shares that had been issued at a price of $0.087 per Common Share were cancelled.

4. On 16 June 2016 the Company closed a non-brokered private placement of 1,519,250 shares of the Company at a price of CAD $0.08 per Unit for aggregate gross proceeds of CAD $121k. Each unit is comprised of one common share and one common share purchase warrant. Each Warrant will be exercisable for one Common Share at a price of CAD $0.15 per share for a period of 24 months from the date of closing of the offering.

8. Loans and Notes payable

Loans	30 September 2016 CAD $000	30 September 2015 CAD $000
Loan current	1,503	2,803
Loan non current	2,665	262
Total	**4,168**	**3,065**

a) Loan payable:

Loan payable – current	30 September 2016 CAD $000	30 September 2015 CAD $000
As at 01 April	3,210	2,167
Adjustment	(1,991)	171
Bank loan	236	307
Interest	235	158
Repayment	(187)	–
As at 30 September	**1,503**	**2,803**

Loan payable – non current	30 September 2016 CAD $000	30 September 2015 CAD $000
As at 01 April	674	433
Adjustment	1,991	(171)
As at 30 September	**2,665**	**262**

i) **USD loan payable**

As at 31 March 2016, the Company was indebted to a third party lender for a USD$2,185k (CAD$2,835k) loan secured by the shares of its wholly owned subsidiary, IPP, and bearing fixed interest at 10% per annum.

The loan maturity date is 31 March 2018 and the repayment schedule was amended in August 2016 to require a USD 700k payment on 15 October 2016 and a final payment of approximately USD 1,485k on 31 March 2018.

As at 30 September 2016, $921k (30 September 2015, 2016 – $2,745k) of principal is classified as a current liability; $1,948k (30 September 2015 – $nil) of principal is classified as long-term and $221k (30 September 2015 – $167) of accrued interest is included in traded and other payables.

ii) **Euro bank debt**

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

As at 30 September 2016, the principal balance of the loan was €175k (CAD$258k) of which $61k is classified as a current liability and $198k is classified as long-term.

iii) **Euro bank debt**

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

As at 30 September 2016 the principal balance of the loan was €164k (CAD$242k) of which $83k is classified as a current liability and $159k is classified as long-term.

iv) **Euro loan payable**

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

As at 30 September 2016, the principal balance of the loan was €258k (CAD$380k) of which $239k is classified as a current liability and $142k is classified as long-term.

v) **Cayman loan payable**

On 13 November 2015, the Company secured a £20million (CAD$40.25 million) unsecured loan facility (the "Loan") for general corporate purposes with a Cayman Islands based Fund, Darwin Capital Limited (the "Lender"). The Loan can be drawn by written notice given by the Company. Subject to satisfaction of certain conditions precedent and the approval of the Lender, a minimum sum of £100k and up to a maximum sum of £2,000k for each tranche can be drawn at any time from the date of the Loan agreement for a period of 18 months after such date. The Loan accrues interest at the rate of 12% per annum on the amount drawn and is payable quarterly in arrears. Each outstanding drawdown is repayable on the third anniversary of the first drawdown date. The Company may prepay the loan, in whole or in part, at any time and without penalty. A one-time fee of £25k is payable in cash or by issuing the Lender common shares of the Company on signing of the facility letter. As at 30 September 2016 the Company had not made any drawdowns on the Loan.

vi) **USD bank debt**

On 9 August 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a loan agreement (with partial drawdown allowed) with Rabitabank Open Joint Stock Company in Baku for the amount of USD $320k (CAD$ 413k). The loan could be drawn down in tranches and as at 30 September 2016 it was fully drawn down. The lender can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown or if the REDPSA is terminated. The loan bears interest at a rate of 12% per annum paid monthly. The principal amount of the loan agreement and accrued interest is payable in two tranches: USD$160k is payable on 22 November 2016 and the remaining USD$100k is payable on 22 February 2017.

As at 30 September 2016, CAD$421k (30 September 2015 – $nil) of principal is classified as a current liability.

vii) USD bank debt

On 30 September 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a second loan agreement (with partial drawdown allowed) with Rabitabank Open Joint Stock Company in Baku for the amount of USD $200k. The principal amount of the second loan agreement and accrued interest is payable in two tranches: USD$100k is payable on 3 January 2017 and the remaining USD$100k is payable on 3 April 2017.

9. Convertible Notes

	Debt component CAD $000	Derivative liability CAD $000	Face value CAD $000
Balance – 01 April 2016	697	358	731
Modification	–	–	–
Conversion	(275)	(25)	(300)
Change in fair value	–	–	–
Accretion	–	–	–
Foreign exchange	(2)	–	(8)
Balance – 30 September 2016	420	333	423

	Debt component CAD $000	Derivative liability CAD $000	Face value CAD $000
Balance – 01 April 2015	583	159	810
Modification	(231)	231	–
Change in fair value	–	(183)	–
Accretion	107	–	–
Foreign exchange	33	–	40
Balance – 30 September 2015	492	207	850

Interest is accrued and presented in trade and other payables in the amount of $324k as at 30 September 2016 (30 September 2015 – $286k).

In August 2016 the Company amended the maturity of the convertible notes from 11 January 2017 to 11 January 2019.

10. Financial assets at fair value through profit and loss

	6 months ended	
BONDS	**30 September 2016 CAD $000**	**30 September 2015 CAD $000**
As of 01 April	563	539
Warrants	–	(49)
Finder's fee	–	(22)
Interests	37	–
Accretion	5	11
Foreign currency translation	(51)	48
As of 30 September	554	527

During the first quarter of the fiscal year 2015, the Company completed a non-brokered private placement of 290,000 units at a price of GBP 1.00 per unit ($1.86 per unit) for gross proceeds of GBP 290k (CAD$539k). Each unit consisted of one GBP 1.00 secured bond and six common share purchase warrants. The bonds are secured by 99% of the oil and gas properties owned by the Company's subsidiary, Canoel Italia S.r.l. The bonds bear interest at 12% per annum, payable quarterly, until the maturity date 36 months from the date of issuance at which time the principal amount of bonds is repayable in full.

Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of $0.25 per share for a period of 36 months from the date of issuance. In connection with the private placement, the Company paid a finder's fees of GBP 11k (CAD$21k) and granted 67,500 finder's warrants exercisable at $0.25 until for a period of 36 months from the date of issuance.

Notes payable	6 months ended 30 September 2016 CAD $000	30 September 2015 CAD $000
As of 01 April	–	–
Addition	191	–
Warrants	–	–
Finder's fee	–	–
Interests	2	–
Accretion	–	–
Foreign currency translation	(1)	–
As of 30 September	192	–

As at 30 September 2016, the Company had US$154k (CAD$192k) (30 September 2015 – $nil) of notes payable, issued on 15 July 2016 by the Company's Argentinian subsidiary Petrolera Patagonia SRL ("PP SRL"), bearing interest at a fixed rate of interest of 4% annum and a repayment date of 12 December 2016.

The bonds are not secured over any of the assets owned by PP SRL and PP SRL has the option to roll over the bond for a further 180 days.

As at 30 September 2016, the balance of notes payable is $192k including accrued interest (30 September 2015 – $nil).

CONVERTIBLE LOANS	9 months 30 September 2016 CAD $000	30 September 2015 CAD $000
Convertible Notes		
Debt component	420	492
Derivative liability	333	207
Notes payable	192	–
Bonds	554	527
As of 30 September	1,499	1,226
Convertible Loans current	612	–
Convertible Loans non current	887	1,226
As of 30 September	1,499	1,226

11. Decommissioning obligation

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

	30 September 2016 CAD $000	30 September 2015 CAD $000
Balance – 01 April	**7,897**	**5,780**
Acquisition	1,943	–
Change in estimate	–	(686)
Accretion	–	141
Foreign currency translation	(47)	281
Balance – 30 September	**9,793**	**5,516**

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

	30 September 2016	30 September 2015
Undiscounted cash flows – uninflated	$17 million	$17.3 million
Undiscounted cash flows – inflated	$1,223 million	$199.7 million
Risk free rate	35.2%	28.2%
Inflation rate	25.4%	13.7%
Expected timing of cash flows	16 – 20 years	18 – 23 years

12. Change in non-cash working capital:

	For the six months ended 30 September 2016 CAD $000	For the six months ended 30 September 2015 CAD $000
Trade and other receivables	(770)	(159)
Inventory	(271)	(147)
Prepaid expenses	28	(118)
Prepaid property and equipment insurance	39	99
Trade and other payables	800	40
Total change in non-cash working capital	**(174)**	**(285)**

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

	For the six months ended 30 September 2016 CAD $000	For the six months ended 30 September 2015 CAD $000
Operating	(177)	(309)
Financing	–	(31)
Investing	3	55
Total change in non-cash working capital	**(174)**	**(285)**

13. Earnings per share

	For the six months ended	
	30 September 2016 CAD $000	30 September 2015 CAD $000
Net Profit (loss) CAD$000	616,257	–1,217
Weighted average number of shares – basic:		
Issued common shares as at April 1	43,594,406	29,292,081
Effect of common shares issued during the year	12,778,437	177,049
	56,372,843	29,469,130
Basic weighted average number of shares	56,372,843	29,469,130
Potential dilutive effect on shares issuable under warrants	42,471,317	19,561,352
Potential diluted weighted average number of shares	98,844,160	44,030,482
Net Profit (loss) per share – basic (1) CAD$	10.93	(0.04)
Net Profit (loss) per share – diluted CAD$	6.23	(0.04)

(1) The Company did not have any in-the-money convertible notes, warrants and stock options during the three and six months ended 30 September 2016 and 2015. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

14. Inventory

At the end of September 2016, there were 2,462 bbls of unsold oil production in Argentina held in inventory, and there were 1,591 bbls of unsold oil production in Azerbaijan held in inventory which were sold in subsequent months.

INVENTORY	For the six months ended 30 September 2016		30 September 2015	
	Barrels	Inventory CAD $000	Barrels	Inventory CAD $000
Argentina	2,462	266	2,552	215
Azerbaian	1,591	51	–	–
Balance 30 September	4,053	317	2,552	215

15. Related party transactions

1. Included in general and administrative expenses for the three and six months ended 30 September 2016 is $41k and $153k (three and six months ended September 30, 2015 – $55k and $113k), respectively, charged by a company (Belpeso Ltd.) controlled by Andrea Cattaneo, an officer and director of the Company, for office rent and administrative services. As at 30 September 2016, $nil (30 September 20156 – $nil) was included in trade and other payables in respect of these charges.
2. Included in trade and other payables is $nil (30 September 2015 – $38k) due to Andrea Cattaneo, officer and directors of the Company, in respect of general and administrative expenditures made on behalf of the Company for which the officers and directors will be reimbursed.

16. Operating segments

The Company's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Company's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Company's Chief Operating Decision Maker ("CODM"). The CODM is considered to be the board of Directors. The Company has four reportable segments which are as follows:

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

	30 September 2015				30 September 2016				
	Argentina CAD $000	Italy CAD $000	Other CAD $000	Total CAD $000	Argentina CAD $000	Azerbaijan CAD $000	Italy CAD $000	Other CAD $000	Total CAD $000
Property and equipment	2,222	15,191	–	17,412	3,075	1,052,656	11,341	–	1,067,072
Other assets	637	1,386	322	2,345	393	943	921	253	2,510
Total liabilities	4,877	5,769	4,935	15,581	3,971	443,172	7,495	7,368	462,006
Capital Expenditures	(206)	(53)	–	(259)	–	–	(31)	–	(31)
Revenue	1,200	332	–	1,532	78	659	330	–	1,067
Royalties	(108)	–	–	(108)	(7)	–	–	–	(7)
Operating and transportation	(670)	(196)	–	(866)	(269)	(370)	(146)	–	(785)
General and Adinistrative	(410)	(201)	(730)	(1,341)	(179)	(272)	(218)	(1,127)	(1,796)
Depletion and depreciation	(57)	(137)	–	(194)	(10)	(110)	(84)	–	(204)
Finance and other expenses	71	(37)	(274)	(240)	4	618,145	(24)	(131)	617,994
Segment income (loss)	26	(239)	(1,004)	(1,217)	(383)	618,052	(142)	(1,258)	616,269

The following customers combined have 10% or more of the revenues:

	30 September 2015		30 September 2016		
	Argentina CAD $000	Italy CAD $000	Argentina CAD $000	Azerbaijan CAD $000	Italy CAD $000
Customer A	1,200	–	–	–	–
Customer B	–	–	–	659	–
Customer C	–	–	–	–	283

17. Post Balance Sheets events

a) On 10 October 2016, the Company 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 $190,605. Each unit is comprised of one Common Share and one common share purchase warrant. Each Warrant will be exercisable for one Common Share at a price of CAD $0.20 per share for a period of 24 months from the date of closing of the offering.

b) On 19 October 2016, the Company issued 724,235 Common Shares at a deemed price of CAD $0.085 per Common Share to certain debtholders and creditors of the Company to settle debts owing by the Company, representing an aggregate of CAD $61,585.48.

c) In November 2016 the Company amended the terms of the repayment of the USD$ 700,000 of the USD loan to 20 December 2016.

d) In November 2016 the Company hired Mr. Alan Hume as its CFO.

e) In November the Company repaid half of the outstanding principle of the USD$320k loan agreement with Rabitabank.

f) On 7 November 2016, the Company completed a non-brokered private placement of 2,745,062 units of the Company at a price of $0.12 per Unit for aggregate gross proceeds of $329,407.44. Insiders of the Company subscribed for an aggregate of 2,195,475 Units for aggregate subscription proceeds of $263,457. Each Unit is comprised of one common share in the capital of Zenith and one Common Share purchase warrant. Each Warrant will be exercisable for one Common Share at a price of $0.20 per share for a period of 24 months from the date of closing of the offering.

g) On 21 November 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a third loan agreement with Rabitabank Open Joint Stock Company in Baku for the amount of USD $55k. The principal amount of the second loan agreement and accrued interest is payable in full on 21 February 2017.

h) On 22 November 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a fourth loan agreement with Rabitabank Open Joint Stock Company in Baku for the amount of USD $55k. The principal amount of the second loan agreement and accrued interest is payable in full on 22 February 2017.

i) On 22 November 2016, Gunsynd Plc (a company listed on the London Stock Exchange's AIM market for listed securities) subscribed for £100,000 of convertible unsecured loan notes bearing interest of 3% per annum. The principal of the loan notes is convertible into Common Shares of the Company at any time prior to the expiry of 36 months from issuance at a price equal to CAD $0.10 per Common Share (or the initial listing price of the Common Shares if the Company is listed on another senior stock exchange at the time of such conversion).

j) In December 2016 the Company amended the terms of the repayment of the USD$ 700,000 of the USD loan to 10 January 2017.

k) In January 2017 the Company amended the terms of the repayment of the USD$ 700,000 of the USD loan to 15 January 2017.

l) Competent Persons Report

The Competent Persons Report includes a change in the valuation of the Azeri asset which has arisen due to amendments to the development plan and the postponement of drilling. These changes have occurred due to delays in handover (completed 11 August 2016) and Admission of the Company to the London Stock Exchange.

The revised valuation of the assets and liabilities acquired along with the revised NPV of the Azeri asset can be found below:

Fair Value of Assets and Liabilities acquired (CAD$'000)	March Evaluation Report (31 March)	CPR (31 August)	Differences
D&P assets	1,052,765	990,602	(62,163)
Compensatory Oil*	(1,997)	(1,833)	164
Capital Costs*	(285,549)	(266,901)	18,648
Foreign Currency Translation	7,913	7,913	–
Decommissioning Obligations	(1,943)	(1,790)	153
Gain on business acquisition	**771,189**	**727,991**	**(43,198)**
Taxation	(153,044)	(144,374)	8,670
Net NPV of the assets	**618,145**	**583,617**	**(34,528)**

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

In accordance with IFRS 3 "Business Combinations" management have a one year "measurement period" in respect of the acquisition and therefore the figures used within these calculations may be subject to change.

18. Nature of financial information

The consolidated and combined financial information above does not constitute statutory financial statements of the Zenith Energy Ltd. for the interim six months ended 30 September 2016 and the six months comparative period ended 30 September 2015.

PART 17

TAXATION

1 United Kingdom taxation

The following statements are intended only as a general guide to current UK tax legislation and to the current practice of HMRC and may not apply to certain shareholders in the Company, such as dealers in securities, insurance companies and collective investment schemes. They relate (except where stated otherwise) to persons who are resident and domiciled in the UK for UK tax purposes, who are beneficial owners of Common Shares (and any dividends paid on them) and who hold their Common Shares as an investment (and not as employment-related securities and other than via an individual savings account). They are based on current UK legislation and what is understood to be the current practice of HMRC as at the date of this Document, both of which may change, possibly with retroactive effect. The tax position of certain categories of shareholders who are subject to special rules (such as persons acquiring their Common Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes or those who, either alone or together with connected parties, hold 5% or more of the Common Shares) is not considered.

Any person who is in any doubt as to his or her tax position, or who is subject to taxation in any jurisdiction other than that of the UK, should consult his or her own professional advisers immediately.

2 Taxation of dividends

Under UK tax legislation, the Company is not required to withhold tax at source from dividend payments it makes.

For the current tax year, the rate of income tax applied to dividends received by an individual Shareholder liable to income tax at the higher rate will be 32.5%. In the case of a dividend received by an individual Shareholder liable to income tax at the additional rate, the rate of income tax will be 38.1%. With effect from 6 April 2016, the UK dividend tax credit (formerly 1/9th of the dividend received) no longer applies but individual shareholders may be entitled to a tax free dividend allowance of £5,000 per tax year.

Dividends paid to a UK resident corporate Shareholder will be taxable income of the UK corporate Shareholder unless the dividends fall within an exempt class and certain other conditions are met. It is, however, expected that dividends paid by the Company to a UK resident corporate Shareholder would generally be exempt, provided certain anti-avoidance provisions are not triggered.

To the extent that dividends are not exempt, UK resident corporate Shareholders may be able to obtain credit for any withholding tax and any underlying tax paid by the Company, subject to certain conditions. The UK has complex double tax relief rules where UK resident companies receive dividends from non-UK resident companies and therefore UK resident corporate Shareholders should seek further advice on these issues.

Trustees who are liable to income tax at the rate applicable to trusts (currently 45.0%) will pay tax on the gross dividend at the dividend trust rate of 38.1% for the current tax year.

United Kingdom pension funds and charities are generally exempt from tax on dividends which they receive.

Other Shareholders who are not resident in the UK for tax purposes should consult their own advisers concerning their tax liabilities on dividends received.

3 Chargeable gains

Shareholders who are resident in the UK for tax purposes and who dispose of their Common Shares at a gain will ordinarily be liable to UK taxation on chargeable gains, subject to any available exemptions or reliefs. The gain will be calculated as the difference between the sale proceeds and any allowable costs and expenses, including the original acquisition cost of the Common Shares.

Shareholders who are not resident in the UK for tax purposes but who carry on a trade, profession or vocation in the UK through a branch, agency or fixed place of business in the UK may be liable to UK taxation on chargeable gains on any gain on a disposal of their Common Shares, if those shares are or have been held, used or acquired for the purposes of that trade, profession or vocation or for the purposes of that branch, agency or fixed place of business.

If an individual Shareholder ceases to be resident in the UK and subsequently disposes of Common Shares, in certain circumstances any gain on that disposal may be liable to UK capital gains tax upon that Shareholder becoming once again resident in the UK.

4 Stamp duty and Stamp Duty Reserve Tax ("SDRT")

The statements below are intended as a general guide to the current position under UK tax law. They do not apply to certain intermediaries who may be eligible for relief from stamp duty or SDRT, or to persons connected with depository arrangements or clearance services (or, in either case, their nominees or agents), who may be liable to stamp duty or SDRT at a higher rate.

Admission of the Common Shares to the standard segment of the Official List will not give rise to a liability to stamp duty or SDRT on the basis that the Admission does not involve a change in title to the Common Shares for consideration. (The definition of consideration for stamp duty purposes is restricted to consideration in the form of cash, shares or debt. However, the definition for SDRT purposes is broader and will include anything in money or money's worth.)

The central management and control of the Company currently takes place outside the UK and the shareholders' register is currently maintained outside the UK. As such, upon the admission of the Common Shares to the Official List and to trading on the London Stock Exchange's Main Market for listed securities, any transfer of Depositary Interests should no longer attract SDRT.

Provided that the shareholders' register continues to be maintained outside the UK, there will be no SDRT on any agreement to transfer the Common Shares themselves. However, any document transferring title to the Common Shares will attract stamp duty at the rate of 0.5% (rounded to the nearest £5 if necessary) if it is executed in the UK or relates (wheresoever executed) to any matter or thing done or to be done in the UK.

Where a document transfers title to non-UK shares, but the transfer has such a UK nexus, it may not be relied upon as evidence in civil proceedings within the UK unless it is exempt or has been duly stamped by the UK tax authorities.

5 Inheritance Tax

If any individual Shareholder is regarded as domiciled in the UK for inheritance tax purposes, inheritance tax may be payable in respect of the Common Shares on the death of the Shareholder or on certain gifts of the Common Shares during their lifetime, subject to any allowances, exemptions or reliefs. This is the case regardless of their residence status. In the case of an individual Shareholder who is not regarded as domiciled in the UK for inheritance tax purposes at the date of death, their liability is limited to assets situated in the UK.

A transfer of Common Shares at less than market value may be treated for inheritance tax purposes as a gift of the Common Shares. Special rules may apply to close companies and to trustees of certain settlements who hold Common Shares, which may bring them into the charge to inheritance tax.

Non-UK domiciled individual Shareholders may be regarded as deemed domiciled for inheritance tax purposes only following a long period of residence in the UK.

Situs of shares for inheritance tax purposes is a complex matter and is governed by case law. To the extent the Common Shares are not already treated as UK assets for inheritance tax purposes, then admittance of the Common Shares to the standard segment of the Official List may result in the Common Shares being treated as UK assets for UK inheritance tax purposes. Admission of the Common Shares to the Official List will not constitute a disposal of the Common Shares held by existing Shareholders. However, if the Common Shares are considered UK situs, this could have an adverse impact on the reliefs available from inheritance tax to individual Shareholders.

UK inheritance tax is a complex area and individuals should obtain their own advice in respect of this.

6 Certain Canadian Federal Income Tax Considerations

The following summary describes, as of the date hereof, the principal Canadian federal income tax considerations under the Income Tax Act (Canada) and the regulations promulgated thereunder (the "**Tax Act**") generally applicable to an investor who acquires, as beneficial owner, Common Shares pursuant to the Placing who, at all relevant times and for purposes of the Tax Act is not, and is not deemed to be, resident in Canada, holds the Common Shares as capital property, does not, and will not be deemed to use or hold the Common Shares in the course of carrying on a business in Canada, and deals at arm's length with, and is not affiliated with, the Company or Optiva Securities Limited (a "**Holder**").

Common Shares will generally be considered to be capital property to a Holder unless the Holder acquires or holds such Common Shares in the course of carrying on a business or in one or more transactions considered to be an adventure or concern in the nature of trade. Special rules, which are not discussed below, may apply to a Holder that is an insurer that carries on business in Canada and elsewhere. Such Holders should consult their own tax advisers.

This summary is based on the provisions of the Tax Act in force on the date hereof and the current administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") published in writing and publicly available prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that all such Proposed Amendments will be enacted in the form proposed. However, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law, whether by judicial, governmental or legislative decision or action or changes in the administrative policies and assessing practices of the CRA, nor does it take into account the laws of any province or territory of Canada or of any jurisdiction outside of Canada, which may differ from those discussed in this summary.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder. Holders should consult their own tax advisors having regard to their own particular circumstances.

6.1 Currency Conversion

Generally, for purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Common Shares must be determined in Canadian dollars. Any such amount that is expressed or denominated in a currency other than Canadian dollars must be converted into Canadian dollars using the relevant exchange rate quoted by the Bank of Canada on the relevant day or such other rate of exchange acceptable to the Minister of National Revenue (Canada).

6.2 Dividends

A dividend paid or credited (or deemed under the Tax Act to be paid or credited) on the Common Shares to a Holder will generally be subject to Canadian withholding tax under the Tax Act at a rate of 25%, subject to any reduction in the rate of such withholding under the provisions of an applicable income tax treaty or convention.

6.3 Disposition of Shares

A Holder will generally not be subject to tax under the Tax Act in respect of any capital gain realised on a disposition or deemed disposition of Common Shares unless the Common Shares constitute "taxable Canadian property" (as defined in the Tax Act) to the Holder at the time of the disposition and the Holder is not entitled to relief under an applicable income tax treaty or convention.

Provided the Common Shares are listed on a designated stock exchange for purposes of the Tax Act at the time of disposition, which currently includes the TSXV and the London Stock Exchange, the Common Shares will generally not constitute taxable Canadian property to a Holder at that time, unless at any time during the 60-month period immediately preceding the disposition of the Common Shares: (a) one or any combination of (i) the Non-Resident Holder, (ii) persons with whom the Holder does not deal at arm's length, (iii) partnerships in which the Holder or a person described in (ii) holds a membership interest directly or indirectly through one or more partnerships, has owned 25% or more of the issued shares of any class of the Company, and (b) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of: (i) real or immovable property situated in Canada; (ii) Canadian resource properties; (iii) timber resource properties; and (iv) options in respect of, or interests in or for civil law rights in, property in any of the foregoing whether or not the property exists. Common Shares may also be deemed to be taxable Canadian property to a Holder in certain circumstances.

A Holder whose Common Shares may constitute taxable Canadian property to such Holder should consult its own tax advisers.

This summary is for general information only and it is not intended to be, nor should it be construed to be, legal advice to any Shareholder or prospective investor.

PART 18

ADDITIONAL INFORMATION

1 Responsibility

1.1 The Directors and Proposed Director, whose names appear on page 45, and the Company accept responsibility for the information contained in this Document. To the best of the knowledge of the Directors and the Proposed Director and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this Document is in accordance with the facts and contains no omission likely to affect its import.

1.2 Chapman Petroleum, in its capacity as Competent Person, accepts responsibility for the information contained in its Competent Person's Report as set out in the Appendix to this Document. To the best of the knowledge of Chapman Petroleum (which has taken all reasonable care to ensure that such is the case), the information contained in the Competent Person's Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 The Company

2.1 The Company was incorporated and registered in British Columbia on 20 September 2007 under the Business Corporations Act (British Columbia) as a corporation with the name Canoel International Energy Ltd. and with registered corporation number BC0803216. Pursuant to a shareholders' resolution dated 30 September 2014, the Company's name was changed to Zenith Energy Limited. Its Common Shares were admitted to trading on the TSXV on 10 April 2008.

2.2 The Company is domiciled in British Columbia, Canada. The Company's head office is located in Calgary, Alberta, Canada. The head office of the Company and business address for all the Directors and the Senior Manager, as at the date of this Document, is at 15th Floor, Bankers Court, 850 – 2nd Street S.W. Calgary, Alberta, T2P 0R8, Canada. The principal legislation under which the Company operates is the Business Corporations Act (British Columbia). The liability of the Shareholders of the Company is limited.

2.3 The Company is regulated by the Alberta Securities Commission as its principal regulator but it is not regulated by the FCA or any financial services regulator. With effect from Admission, the Company will be subject to the Listing Rules and the Disclosure Guidance and Transparency Rules (and the resulting jurisdiction of the UK Listing Authority), to the extent such rules apply to companies with a Standard Listing.

3 Share capital

3.1 As at 30 December 2016 (being the latest practicable date before publication of this Document) the Company is authorised to issue an unlimited number of Common Shares and Preferred Shares (issued in a series) and 64,574,153 Common Shares of no par value are issued and outstanding. The Company has convened an annual general meeting to be held on 20 January 2017. The record date for notice of the meeting and for voting (if applicable) is 21 December 2016.

3.2 The Common Shares (whose ISIN is CA98936C1068) will be listed on the Official List and will be traded on the main market of the London Stock Exchange. The Common Shares are currently listed on the TSXV and application will be made to list the Placing Shares and the Manager Shares on the TSXV. Save for the forgoing, the Common Shares are not listed or traded on, and no application has been or is being made for the admission of the Common Shares to listing or trading on any other stock exchange or securities market.

3.3 During the period of the historical financial information, there have been the following changes in the issued and authorised share capital of the Company:

(a) On 6 September 2013, the Company's shareholders approved a 10 for 1 share consolidation of the Company's equity instruments comprised of common shares, warrants and stock options.

(b) On 20 September 2013, the Company completed a private placement of 750,000 Common Shares at CAD $0.20 per Common Share for gross proceeds of CAD $150,000.

(c) On 10 February 2014, the Company completed a private placement of 400,000 Common Shares at CAD $0.25 per Common Share for gross proceeds of CAD $1,000,000.

(d) On 19 February 2014, the Company issued 313,610 Common Shares to Somerley Capital Limited as payment for advisory services valued at CAD $59,586 based on the CAD $0.19 market price of the Company's Common Shares on the date of issuance.

(e) On 7 March 2014, the Company issued 1,600,000 Common Shares to Global Resources Investment Trust plc ("**GRIT**"), an unrelated party, in exchange for 222,000 GRIT shares. The share exchange was recognised at the £1.00 quoted market price of the GRIT shares on the date of issuance, being £222,000. The GRIT shares have been listed for trading on the London Stock Exchange.

(f) On 12 September 2014, the Company announced the completion of a replacement and conversion agreement (the "**Replacement and Conversion Agreement**") which was entered into between the Company and each of the holders of the Company's outstanding 9% unsecured convertible notes (principal amount $1,080,000 Swiss Francs) dated 11 January 2012 (the "**Notes**"). Pursuant to the terms of the Replacement and Conversion Agreement, the holders of the Notes agreed to cancel their Notes in exchange for the issuance by Zenith of replacement notes, which are convertible into Common Shares at a deemed price of CAD $0.215 per Common Share (the "**Replacement Notes**"). In accordance with the terms of the Replacement and Conversion Agreement, the holders of approximately 42% (principal amount $460,000 Swiss Francs) of the Replacement Notes converted the principal amount of such Replacement Notes into Common Shares of the Company, resulting in the issuance of an aggregate of 2,510,058 Common Shares of the Company. As at 31 March 2015, the Company held $620,000 Swiss Francs of unsecured convertible notes bearing interest at 9% per annum, payable in arrears in equal quarterly instalments and maturing on January 11, 2017. At any time prior to maturity and at the option of the note holder, the principal and any unpaid interest of a note may be converted into Common Shares of the Company at a price of CAD $0.215 per share. In July 2015, the Company entered into an agreement to amend the terms of the $620,000 Swiss Francs of unsecured convertible notes. Pursuant to the terms of the agreement, the conversion price was reduced to CAD $0.125 per share and the rate of interest was reduced to 5%. The amended conversion price is based on the closing market price of the Company's shares on 7 July 2015. On 30 November 2016, the Company announced that it had entered into an agreement to amend the terms of the remaining Replacement Notes. Pursuant to the terms of the agreement, the conversion price was reduced to CAD $0.11 per share and the rate of interest was reduced to 1%. In addition, the maturity date of the Replacement Notes was amended to 11 January 2019. The remaining principal amount of Replacement Notes as of 30 November 2016 was $314,953.69 Swiss Francs.

(g) During the year ended 31 March 2015, the Company issued a total of 15,529,984 shares at CAD $0.15 per unit for gross proceeds of CAD $2,329,498. Each unit is comprised of one Common Share and one share warrant exercisable at CAD$0.25 per Common Share for a period of 36 months from the date of issuance. In connection with the private placement, the Company incurred expenses of CAD $45,850, finder's fees of CAD $135,940 and issued a total of 873,868 finder's share warrants exercisable at CAD $0.25 for a period of 36 months from the date of issuance. Officers and directors of the Company subscribed for an aggregate of 1,716,665 shares for gross proceeds of CAD $257,500.

(h) On 7 May 2015, the Company completed a non-brokered private placement of 225,000 Common Shares at a price of GBP 1.00 per unit (approximately CAD $1.84 per unit) for gross proceeds of GBP 225,000 (approximately CAD $414,000). Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants. The bonds are secured by 99% of the oil and gas properties owned by the Company's subsidiary, Canoel Italia S.r.l. The bonds bear interest at 12% per annum, payable quarterly, until the maturity date 36 months from the date of issuance at which time the principal amount of bonds is repayable in full (the expiry date is 7 May 2018). Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional Common Share at an exercise price of CAD $0.25 per Common Share for a period of 36 months from the date of issuance. In connection with the private placement, the Company paid finder's fees of GBP 11,250 and granted 67,500 finder's share warrants, exercisable at CAD $0.25 for a period of 36 months from the date of issuance (this right will expire on 7 May 2018).

(i) On 10 August 2015, the Company completed its second tranche of its non-brokered private placement of 65,000 shares at a price of GBP 1.00 per unit (or approximately CAD $2,035 per unit), for gross proceeds of GBP 65,000 (or approximately CAD $132,280 for gross proceeds).

Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants. Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional Common Share at an exercise price of CAD $0.25 per Common Share at any time on or before the date that is 36 months from the date of issuance of the common share purchase warrant. No finder's fees were paid in connection with the second tranche.

In addition to any resale restrictions under applicable securities legislation, all securities issued under the private placement will be subject to a four-month hold period from the date of issuance.

(j) On 18 September 2015, the Company completed the private placement of 2,700,000 shares at CAD $0.10 per unit for gross proceeds of CAD $270,000. Each unit is comprised of one Common Share and one-half common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one Common Share at CAD $0.25 per Common Share for a period of 36 months from the date of issuance.

(k) On 27 November 2015, the Company completed the private placement of 4,214,125 shares at CAD $0.08 per unit for gross proceeds of CAD $337,000. 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 $0.25 per share for a period of 36 months from the date of issuance.

(l) On 29 January 2016, the Company completed a private placement of 2,655,688 shares at CAD $0.08 per unit for gross proceeds of CAD $212,455.04. Each unit is comprised of one Common Share and one Common Share purchase warrant. Each Common Share purchase warrant entitles the holder to acquire one Common Share at an exercise price of CAD $0.15 per Common Share for a period of 24 months from the date of issuance. The Company also paid aggregate finders' fees of CAD $3,368 and issued 42,108 warrants to an arm's-length party in the connection with this private placement.

(m) On 2 March 2016, the Company issued 526,705 Common Shares to Darwin Capital Limited as payment for services valued at £25,000 (CAD $51,854) based on a price of CAD $0.09845 per Common Share as agreed to by the parties and in accordance with the terms of a debt settlement agreement dated 22 December 2015 entered into between the Company and Darwin Capital Limited.

(n) On 2 March 2016, the Company issued 198,167 Common Shares to Dowgate Capital Stockbrokers Limited as payment for services valued at CAD $14,862.50 based on a price of CAD $0.075 per Common Share as agreed to by the parties and in accordance with the terms of a debt settlement agreement dated 22 December 2015 entered into between the Company and Dowgate Capital Stockbrokers Limited, such shares being issued at the market price of the Company's Common Shares.

(o) On 7 March 2016, the Company completed a private placement of 625,000 shares at CAD $0.08 per unit for gross proceeds of CAD $50,000. Each unit is comprised of one Common Share and one Common Share purchase warrant. Each Common Share purchase warrant entitles the holder to acquire one Common Share at an exercise price of CAD $0.15 per Common Share for a period of 24 months from the date of issuance. The Company also paid aggregate finders' fees of CAD $3,250 and issued 40,625 warrants to an arm's length party in connection with this private placement.

(p) On 30 March 2016, the Company completed the private placement of 2,500,000 Common Shares at CAD $0.08 per unit for gross proceeds of CAD $200,000. 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 Company also paid aggregate finders' fees of CAD $13,000.

3.4 During the period from 1 April 2016 to the date of this Document, there have been the following changes in the issued and authorised share capital of the Company:

(a) On 11 April 2016, the Company completed the private placement of 6,674,775 Common Shares at CAD $0.08 per unit for gross proceeds of CAD $534,000. Of the 6,674,775 Common Shares, 5,000,000 Common 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 Common Shares were not issued with accompanying warrants. The Company also paid aggregate finders' fees of CAD $26,000 and issued 325,000 warrants to certain arms' length parties in connection with the private placement.

(b) On 21 April 2016, the Company completed the private placement of 3,892,875 Common Shares at CAD $0.08 per unit for gross proceeds of CAD $311,430. Each unit is comprised of one Common Share and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one Common Share at CAD $0.15 per Common Share for a period of 24 months from the date of issuance. The Company also paid aggregate finders' fees of CAD $14,376.95 and issued 179,712 warrants to certain arm's-length parties in the connection with the private placement.

(c) On 09 June 2016, the Company issued 2,730,000 Common Shares at a deemed price of CAD $0.11 per Common Share, 312,500 Common Shares at a price of $0.10 per Common Share and 160,000 Common Shares at a price of $0.087 per Common Share to certain debtholders and creditors of the Company to settle debts owing by the Company, representing in aggregate of CAD $345,473. On 17 June 2016, the 160,000 Common Shares that had been issued at a price of $0.087 per Common Share were cancelled.

(d) On 16 June 2016, the Company closed a non-brokered private placement of 1,519,250 Common Shares at a price of CAD $0.08 per unit for aggregate gross proceeds of CAD $121,540. 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 $0.15 per share for a period of 24 months from the date of closing of the offering.

(e) On 28 June 2016, the Company closed a non-brokered private placement of 312,500 shares of Company at a price of CAD $0.10 per share to a creditor of the Company to settle a debt owing by the Company, representing in aggregate CAD $31,250.

(f) On 10 October 2016 the Company 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 $190,605. 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.

(g) On 19 October 2016, the Company issued 724,235 Common Shares at a deemed price of CAD $0.085 per Common Share to certain debtholders and creditors of the Company to settle debts owing by the Company, representing an aggregate of CAD $61,585.48.

(h) On 7 November 2016, the Company 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 $329,407.44. Insiders of the Company subscribed for an aggregate of 2,195,475 units for aggregate subscription proceeds of CAD $263,457. 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.

(i) On 18 November 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 Option 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.

(j) On 22 November 2016, Gunsynd Plc ("**Gunsynd**"), a company listed on the London Stock Exchange's AIM market for listed securities, invested GBP£100,000 by way of subscription for convertible unsecured loan notes bearing interest of 3% per annum (the "**GBP Convertible Notes**"). The GBP Convertible Notes are payable in arrears in quarterly instalments. At the option of Gunsynd, the principal of the GBP Convertible Notes may be converted into Common Shares of the Company at any time prior to the expiry of 36 months from issuance at a price equal to CAD $0.10 per Common Share (or the initial listing price of the Common Shares if the Company is listed on another senior stock exchange at the time of such conversion). Subject to the GBP Convertible Notes not having been converted, the GBP Convertible Notes mature 36 months from the date of issuance. Unless permitted under Canadian securities legislation, the GBP Convertible Notes cannot be traded before the date that is four months and a day after the date of issuance.

(k) On 30 November 2016, the Company issued 150,000 Common Shares to Align Research Limited ("**Align**") (based on a price of CAD$ $0.08 per share Common Share) in settlement of a debt of GBP £7,000 (inclusive of accrued interest) owed by the Company to Align in respect of services provided by Align.

4 Outstanding Warrants

As at 30 December 2016 (being the latest practicable date before publication of this Document) the Company had 46,881,622 Warrants outstanding relating to 46,881,622 Common Shares and exercisable at a weighted average exercise price of $0.21 per Common Share.

Type	Grant Date	Number of Warrants	Price per Warrant (CAD $)	Expiry Date
Warrants	April 2014	103,466	0.25	April 2017
Warrants	May 2014	5,613,035	0.25	May 2017
Warrants	June 2014	1,817,332	0.25	June 2017
Warrants	July 2014	1,293,334	0.25	July 2017
Warrants	December 2014	2,822,426	0.25	December 2017
Warrants	January 2015	1,629,859	0.25	January 2018
Warrants	February 2015	3,124,400	0.25	February 2018
Warrants	May 2015	1,417,500	0.25	May 2018
Warrants	August 2015	390,000	0.25	August 2018
Warrants	September 2015	1,350,000	0.25	September 2018
Warrants	November 2015	4,214,125	0.25	November 2018
Warrants	January 2016	2,697,796	0.15	January 2018
Warrants	March 2016	3,165,625	0.15	March 2018
Warrants	April 2016	11,072,362	0.15	April 2018
Warrants	June 2016	1,519,250	0.15	June 2018
Warrants	October 2016	1,906,050	0.20	October 2018
Warrants	November 2016	2,745,062	0.20	November 2018
Total Warrants		**46,881,622**		

5 Loans

5.1 USD $2,050,000 Loan from Jiu Feng Investment Hong Kong Limited

On 20 January 2011, the Company entered into a loan agreement with Jiu Feng Investment Hong Kong Limited ("**Jiu Feng**"), pursuant to which Jiu Feng agreed to lend the Company USD $2,000,000 (the "**USD Loan**") to finance the acquisition of Argentinian properties and for working capital. All amounts advanced to the Company under the USD Loan and any interest accrued on such amounts were, save in certain specific circumstances, repayable on 20 January 2013. Interest was at the rate of USD $ Prime plus 6.75% on the outstanding balance of the principle sum owing and any overdue interest.

The parties have entered into a number of subsequent agreements to amend, principally, the repayment schedule of the USD Loan. By a letter dated 22 November 2012, from Jiu Feng to the Company, the maturity date of the USD loan was extended to 21 July 2013. On 1 June 2013, the parties entered into an amended and restated loan agreement which confirmed the principal amount of the USD Loan as being USD $2,050,000. Under the amended and restated agreement, interest is payable at a rate of 10% per annum. The term of the USD Loan was 24 months. The Company is entitled to repay (in whole or in part) the principal and interest without penalty. Under the amended and restated agreement the Company granted a pledge over the shares in its subsidiary, Ingenieria Petrolera Patagonia Ltd. The Company also agreed to use its best efforts to cause its subsidiary Petrolera Patagonia Corporation Inc. to grant a security interest over the Group's Argentine operations as security for the USD Loan. In addition, the amended and restated agreement provides that (i) the Company will use its best efforts to obtain all regulatory approvals necessary to convert the USD Loan into bonds registered to Jiu Feng (or its nominee) and (ii) subject to approval from the TSXV and all other regulatory approvals, to issue common share purchase warrants to Jiu Feng to purchase up to 5,000,000 common shares in the capital of the Company at an exercise price of USD $0.10 per common share (such warrants expiring on the maturity date of the loan). In addition, Jiu Feng also has the right to participate in a portion of the profit from the eventual sale of any of the Company's operations in Argentina.

On 30 July 2014, the parties entered into an amendment agreement, pursuant to which the term of the USD Loan under the amended and restated loan agreement dated 1 June 2013 was extended to 36 months.

On 22 May 2015, the parties entered into a further amendment agreement to amend the repayment schedule and extend the maturity date of the USD Loan to 30 August 2016. Pursuant to the agreement, the Company agreed to make repayments of principal and interest in the amount of US $17,200 per month from 1 June 2015 to 30 August 2016, a US $700,000 payment on 30 November 2015, a US $1,000,000 payment on 15 April 2016 and a final payment of approximately US $485,336.78 on 30 August 2016. The Company made and applied the monthly US $17,200 payments from June 1 to December 31, 2015 against accrued interest. The US $700,000 payment due on 30 November 2015 was not made.

On 21 December 2015, the parties entered into a further amendment agreement to amend the USD Loan repayment schedule and extend the maturity date from 30 August 2016 to 31 March 2018. Pursuant to the amended agreement, the Company agreed to make repayments of US $20,000 per month from 5 April 2016, a US $700,000 payment on 28 February 2016 and a final payment of approximately US $1,485,337 on 31 March 2018. Failure to perform the repayment schedule under this amendment entitled Jiu Feng to accelerate the principle outstanding and claim for all overdue interest at a rate of 20% per annum. The terms of this amendment agreement also provide Jiu Feng with a "Debt to Equity Option" whereby Jiu Feng has the option to convert debt to "Debt-to-Equity Swap" in the Company or its subsidiaries (up to a maximum of 29.9%) in the event that the Company breaches the agreement and "plan to list its subsidiaries on a public market". The loan agreement was also amended to add CAD $135k of accrued and unpaid interest to the principal amount of the loan increasing the principal to US $2,185k (CAD $2,835k). The US $700,000 payment due on 28 February 2016 was not made.

In August 2016, the Company entered into a further agreement with Jiu Feng to amend the existing arrangements between the parties in respect of the USD Loan. This agreement provides that as at August 2016, the total principal amount owed by the Company to Jiu Feng is US

$2,135,336.70. The Company was required to make a US $700,000 payment on 15 October 2016. A final payment of approximately US $1,485,336.70 was to be paid on 31 March 2018. In November 2016, the parties amended the terms of the USD Loan so that the initial repayment of USD$ 700,000 was required on 20 December 2016. In December 2016, the parties amended the terms of the USD Loan so that the initial repayment of USD$ 700,000 was required on 10 January 2017. In January 2017, the parties amended the terms of the USD Loan so that the initial repayment of USD$ 700,000 is now required on 15 January 2017.

Andrea Cattaneo, President, CEO and Director of the Company, has provided a personal guarantee to Jiu Feng in respect of the repayment of the USD Loan by the Company.

5.2 **£20,000,000 Loan Facility with Darwin Strategic Limited (acting on behalf of Darwin Capital Limited)**

On 13 November 2015, the Company entered into a £20,000,000 (circa CAD $37,200,000) unsecured loan facility for general corporate purposes (the "**Facility**") with Darwin Strategic Limited (acting on behalf of Darwin Capital Limited) (the "**Lender**"). Subject to a satisfaction of certain conditions precedent and the approval of the Lender, a minimum sum of £100,000 and up to a maximum sum of £2,000,000 for each tranche can be drawn at any time up to 13 May 2017. Each drawdown is at the Lender's absolute discretion. The Loan accrues interest at the rate of 12% per annum on the amount drawn and is payable quarterly in arrears. Each outstanding drawdown is repayable on the third anniversary of the first drawdown date. The Company may prepay the loan, in whole or in part, at any time and without penalty. A one-time fee of £25,000 was payable to the Lender on signing of the facility letter (satisfied by issuing the Lender with 526,705 Common Shares). Provided no monies are owing under the Facility, the Company may terminate the Facility with immediate effect by written notice and the Lender may terminate the facility on the one year anniversary of the date of the facility letter. The parties can mutually agree in writing to terminate the Facility at any time. As at 21 December 2016, the Company had not made any drawdowns under the Facility.

5.3 **EUR 401,148.10 Loan from Eneco Trade S.r.l. (relating to the acquisition of a co-generation plant in Italy)**

On 29 September 2015, Canoel Italia S.r.l. ("**Canoel**") entered into an agreement with Eneco Trade S.r.l. ("**Eneco**") for the acquisition of a co-generation plant which treats gas from the Masseria Vincelli 1 well in the Torrente Cigno concession in Italy for a total consideration of EUR 470,000. EUR 401,148.10 of the purchase price was in the form of a loan payable to Eneco. The loan is secured against the co-generation plant, bears interest at 3.5% per year and is repayable in 30 monthly instalments of principal and interest until 31 March 2018. As at 30 November 2016, the balance of the loan outstanding was approximately EUR 218,302.

5.4 **EUR 220,000 Loan from GBM Banca S.p.A**

On 6 August 2015, Canoel entered into a loan agreement with GBM Banka S.p.A ("**GBM**"), pursuant to which GBM lent EUR 220,000 to Canoel. Canoel is required to repay the amount due over five years by paying 60 monthly instalments, each such instalment comprising part of the principal sum borrowed and part of the relevant accrued interest. Each instalment must be paid on the 30th day of each month, with the first instalment payable on 31 August 2015. GBM is entitled to debit the instalments directly from Canoel's account. The loan is unsecured and interest payable on the loan is fixed at 7% per year. As at 30 November 2016, the balance of the loan outstanding was approximately EUR 168,622.

5.5 **EUR 200,000 Loan from Banca Credito Valtellinese S.C.**

On 17 December 2015, Canoel entered into a loan agreement with Banca Credito Valtellinese S.C. (Filiale di Tortona (AL)) ("**BCV**"), pursuant to which BCV lent EUR 200,000 to Canoel. Canoel is required to repay the amount due by paying 42 monthly instalments, each instalment comprising part of the principal sum borrowed and part of the relevant accrued interest. Each instalment must be paid on the 5th day of each month with the first instalment payable on 5 February 2016. BCV is entitled to debit the instalments directly from Canoel's account. The loan is unsecured and interest payable on the loan is fixed at 4.5% per year. As at 30 November 2016, the balance of the loan outstanding was approximately EUR 150,326.

5.6 **USD $320,000 General Line of Credit Agreement**

On 9 August 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("**Rabitabank**") (the "**First Credit Agreement**") up to an amount of USD $320,000, for industrial and production purposes. The loan could be drawn down in tranches and as at 30 September 2016 it was fully drawn down. Rabitabank can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown or if the REDPSA is terminated. The First Credit Agreement bears interest at a rate of 12% per annum. The loan is guaranteed by the Company. As at 21 December 2016, the balance of the loan outstanding was USD $160,000 (plus accrued interest), all of which is repayable on 22 February 2017.

5.7 **USD $200,000 General Line of Credit Agreement**

On 30 September 2016, Zenith Aran entered into a second general line of credit agreement with Rabitabank (the "**Second Credit Agreement**") up to an amount of USD $200,000. The Second Credit Agreement bears interest at a rate of 12% per annum. The loan is repayable in two tranches; USD $100,000 (plus accrued interest) is payable on 3 January 2017 and the remaining USD $100,000 (plus accrued interest) is payable on 3 April 2017. The loan is guaranteed by the Company. As at 21 December 2016, the full balance of the loan was outstanding.

5.8 **USD $55,000 General Line of Credit Agreement**

On 21 November 2016, Zenith Aran entered into a third general line of credit agreement with Rabitabank (the "**Third Credit Agreement**") up to an amount of USD $55,000. The Third Credit Agreement bears interest at a rate of 12% per annum and is repayable on 21 February 2017. The loan is guaranteed by the Company. As at 21 December 2016, the full balance of the loan was outstanding.

5.9 **Second USD $55,000 General Line of Credit Agreement**

On 22 November 2016, Zenith Aran entered into a fourth general line of credit agreement with Rabitabank (the "**Fourth Credit Agreement**") up to an amount of USD $55,000. The Fourth Credit Agreement bears interest at a rate of 12% per annum and is repayable on 21 February 2017. The loan is guaranteed by the Company. As at 21 December 2016, the full balance of the loan was outstanding.

5.10 **USD 154,000 Loan with Arpenta Sociedad de Bolsa S.A.**

On 16 July 2016, the Company's wholly owned subsidiary in Argentina, Petrolera Patagonia S.r.l. ("**PPSRL**"), entered into a loan agreement with Arpenta Sociedad de Bolsa S.A. ("**Arpenta**"), pursuant to which PPSRL borrowed USD $154,000 of Bonar 2017 Argentine sovereign bonds (the "**Bonds**") (the "**Arpenta Bond Loan**"). PPSRL subsequently sold the Bonds in the market (for Argentine pesos) to address cashflow requirements. Interest is payable on the Arpenta Bond Loan at a rate of 4% per annum. The Arpenta Bond Loan has a bullet repayment date of 15 December 2016, although management at PPSRL has taken steps for the Arpenta Bond Loan to be rolled-over (in whole or in part) for an additional 180 day period, if required. Repayment of the Arpenta Bond Loan is required to be made to Arpenta in the same Bonar 2017 Argentine sovereign bonds as were borrowed.

6 Summary of the Notice of Articles and Articles of the Company

The following summarises certain provisions in respect of the amended and restated articles of the Company (together with the Notice of Articles of the Company, the "**Articles**"). This summary of the Articles does not purport to be complete and is subject to and is qualified in its entirety by the Articles.

6.1 **Restrictions on objects/business**

The Articles contain no restrictions on the Company's principal objects or the type of business that may be carried out by the Company.

6.2 **Common Shares**

The Company is authorised to issue an unlimited number of common shares and preferred shares (issuable in series), having attached thereto the rights, privileges, restrictions hereinafter set forth.

The authorised share structure of the Company consists of shares of the class and series, if any, described in the Notice of Articles of the Company.

Each share certificate issued by the Company must comply with, and be signed as required by, the Business Corporations Act (British Columbia).

6.3 **Articles**

The rights attaching to the Common Shares, as set out in the Articles, contain, amongst others, the following provisions:

(a) ***Rights of Shareholders***

(i) The holders of Common Shares shall be entitled to receive notice of, and to vote at every meeting of the shareholders of the Company and shall have one (1) vote thereat for each such Common Share so held.

(ii) Subject to the rights, privileges, restrictions and conditions attached to any preferred shares of the Company, the holders of Common Shares shall be entitled to receive such dividends as the Directors may from time to time, by resolution declare.

(iii) Subject to the rights, privileges, restrictions and conditions attached to any preferred shares of the Company, in the event of liquidation, dissolution or winding up of the Company or upon any distribution of the assets of the Company among shareholders being made (other than by way of dividend out of the monies properly applicable to the payment of dividends) the holders of Common Shares shall be entitled to share pro rata.

(b) ***Variation of rights***

Subject to the Business Corporation Act, the Company may by special resolution:

(i) create special rights or restrictions for, and attach those special rights or restrictions to, the shares of any class or series of shares, whether or not any or all of those shares have been issued; or

(ii) vary or delete any special rights or restriction attached to the shares of any class or series of shares, whether or not any or all of those shares have been issued.

(c) ***Transfers of Common Shares***

A transfer of a Common Share of the Company must not be registered unless:

(i) a duly signed instrument of transfer in respect of the share has been received by the Company;

(ii) if a share certificate has been issued by the Company in respect of the share to be transferred, that share certificate has been surrendered to the Company; and

(iii) if a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate has been issued by the Company in respect of the share to be transferred, that acknowledgment has been surrendered to the Company.

Other than described above, there are no provisions in the Company's Articles limiting the transfer of the Common Shares.

(d) ***Payment of dividends***

Subject to the Business Corporations Act (British Columbia), the Directors may from time to time declare and authorise payment of such dividends as they may deem advisable.

The Directors may set a date as the record date for the purpose of determining shareholder entitled to receive payment of a dividend. The record date must not precede the date on which the dividend is to be paid by more than two months. If no record date is set, the record date is 5 p.m. on the date on which the Directors pass the resolution declaring the dividend.

All dividends on shares of any class or series of shares must be declared and paid according to the number of such shares held.

No dividends bears interest against the Company.

Any dividend or other distribution payable in cash in respect of shares may be paid by cheque, made payable to the order of the person to whom is sent, and mailed to the address of the shareholder.

(e) ***Borrowing powers***

The Company, if authorised by the Directors, may:

(i) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;

(ii) issue bonds, debentures and other debt obligations either outright or as security for any liability of obligation of the Company or any other person and at such discounts or premiums and on such other terms as they consider appropriate;

(iii) guarantee the repayment of money by any other person or the performance of any obligation of any other person; and

(iv) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

(f) ***Directors***

(i) Directors shall be elected by an ordinary resolution of Shareholders or approved by a resolution of the Directors.

(ii) The minimum number of Directors is three and there is no maximum number of Directors.

(iii) Each Director ceases to hold office prior to the election of Directors at an annual general meeting.

(iv) The Directors may, at any time, appoint a person to be a Director either to fill a vacancy or as an addition to the existing Directors. Where a person is appointed to fill a vacancy, or as an additional Director (provided that the number of additional Directors must not exceed one third of the number of Directors elected at the last annual general meeting), the term shall not exceed the term that remained when the person who has ceased to be a Director ceased to hold office.

(v) A Director may be removed from office:

  (A) with or without cause, by a special resolution of Shareholders passed at a meeting of Shareholders called for the purposes of removing the Director or for purposes including the removal of the Director; or

  (B) if a Director is no longer qualified to act.

(vi) No shareholding qualification is required by a Director.

(vii) The Directors may by resolution of the Directors appoint officers of the Company at such times as may be considered necessary or expedient.

(g) ***Meetings of Shareholders***

The Directors may call meetings of the Shareholders at such times and in such manner and at such places as they consider necessary or desirable, subject to the provisions of the Articles and the Business Corporations Act (British Columbia). In addition, the Directors will convene a meeting of Shareholders upon the written requisition of Shareholders entitled to exercise 5% or more of the issued shares that carry the right to vote at the meeting.

An annual general meeting of the Shareholders shall be called by at least 21 days' notice.

The accidental omission to give notice of a meeting to a Shareholder or another Director, or the fact that a Shareholder or another Director has not received notice, does not invalidate the meeting. A Shareholder may be represented at a meeting of Shareholders by a proxy who may speak and vote on behalf of the Shareholder. The instrument appointing a proxy shall be produced at the place designated for the meeting before the time for holding the meeting at which the person named in such instrument proposes to vote. The notice of the meeting may specify an alternative or additional place or time at or by which the proxy shall be presented.

(h) ***Pre-emption rights of Shareholders***

There are no provisions in the Articles that require new Common Shares to be issued on a pre-emptive basis to existing Shareholders.

7 Stock Option Plan

7.1 Background

The purpose of the Stock Option Plan is to provide an incentive to the directors, officers, employees, consultants and other personnel of the Company or any of its subsidiaries to achieve the longer-term objectives of the Company, to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Company and to attract and retain persons of experience and ability by providing them with the opportunity to acquire an increased proprietary interest in the Company.

7.2 Administration

The Directors are responsible for administering the Stock Option Plan and have full and final discretion to interpret its provisions and to prescribe, amend, rescind and waive the rules and regulations governing its administration and operation.

7.3 Eligibility

The Directors can designate those directors, officers, employees, consultants or other personnel of the Company or its subsidiaries who are granted Options ("**Optionholders**") pursuant to the Stock Option Plan. Subject to the policies (the "**Exchange Policies**") of the TSXV or any other stock exchange on which the Common Shares are listed (the "**Exchange**") and certain other limitations, the Directors are authorised to provide for the grant and exercise of Options on such terms (which may vary as between Options) as they shall determine. No Option may be granted to any person except upon recommendation of the Board.

7.4 Participation

Participation in the Stock Option Plan is entirely voluntary and any decision not to participate shall not affect an individual's relationship or employment with the Company. The granting of an Option pursuant to the Stock Option Plan shall in no way be construed as conferring on any Optionholder any right with respect to continuance as a director, officer, employee or consultant of the Company or any of its subsidiaries. Options are not affected by any change of employment of the Optionholder or by the Optionholder ceasing to be a director, officer or a consultant of the

Company or any of its subsidiaries where the Optionholder at the same time becomes or continues to be a director, officer, full-time employee or consultant of the Company or any of its subsidiaries.

7.5 **Shares subject to Options**

The number of authorised but unissued Common Shares that may be issued upon the exercise of Options granted under the Stock Option Plan at any time plus the number of Common Shares reserved for issuance under outstanding incentive stock options otherwise granted by the Company shall not exceed 10% of the issued and outstanding Common Shares as at the closing of the initial public offering of the Common Shares on the TSXV.

In addition, unless the Company receives the permission of the stock exchange or exchanges on which the Common Shares are listed to exceed such threshold, the Options granted under the Stock Option Plan together with all of the Company's other previously established stock option plans or grants, must not result at any time in:

(a) the number of Common Shares reserved for issuance pursuant to Options granted to insiders (as defined in the Exchange Policies) exceeding 10% of the issued and outstanding Common Shares;

(b) the grant to insiders (as defined in the Exchange Policies) within a 12 month period, of a number of Options exceeding 10% of the outstanding Common Shares; or

(c) the grant to any one Optionholder within a 12 month period, of a number of Options exceeding 5% of the issued and outstanding Common Shares.

7.6 **Option price and exercise price**

Subject to prior termination under the Stock Option Plan, each Option and all rights thereunder expire on the date set out in the stock option agreement entered into between the Company and each Optionholder, which shall be the date of expiry of the period determined by the Board of Directors during which the Optionholder may exercise the Option (the "**Option Period**"). The Option Period cannot exceed a period of 5 years from the date the relevant Option is granted unless the Company receives the permission of the stock exchange or exchanges on which the Common Shares are then listed and, in any event, no Option can be exercisable for a period exceeding 10 years from the date it is granted.

Subject to Exchange Policies and any limitations imposed by any relevant regulatory authority, the exercise price of an Option granted under the Stock Option Plan shall be as determined by the Board of Directors when such Option is granted and shall be an amount at least equal to the last per share closing price for the Common Shares on the Exchange before the date of grant of the Option (less any applicable discount under the Exchange Policies).

7.7 **Exercise of Options**

Subject to Exchange Policies, the Board of Directors may, in its sole discretion, determine the time during which an Option shall vest and the method of vesting, or that no vesting restriction shall exist.

Subject to any vesting limitations which may be imposed by the Directors at the time of grant of an Option, an Optionholder is generally entitled to exercise an Option granted to him at any time prior to the expiry of the Option Period. If an Optionholder ceases to be a director, officer, employee or consultant of the Company or its subsidiaries for any reason other than death, the Optionholder may within 90 days or prior to the expiry of the Option Period, whichever is earlier, exercise any Option held. If an Optionholder dies, the Option previously granted to him is exercisable within one year following the date of the death or prior to the expiry of the Option Period, whichever is earlier, by the person or persons to whom the Optionholder's rights under the Option pass.

7.8 **Anti-dilution**

On certain variations to the share capital of the Company, the number of Common Shares comprised in existing Options may be adjusted so as to avoid the dilution of such Options.

7.9 **Transferability of Options**

No right or interest of any Optionholder under the Stock Option Plan is assignable or transferable.

7.10 **Options granted to the Directors, the Proposed Director and the Senior Manager**

As at 30 December 2016 (being the latest practicable date prior to publication of this Document) the outstanding Options that have been granted to the Directors, the Proposed Director and the Senior Manager or any member of their immediate families ("**Connected Persons**"), are as follows:

Name	Date of grant	Number of Options over Common Shares	Exercise Price (CAD $)	Expiry Date
Jose Ramon Lopez-Portillo	18 November 2016	600,000	$0.10	18 November 2021
Luigi Regis Milano	18 November 2016	1,000,000	$0.10	18 November 2021
Andrea Cattaneo	18 November 2016	3,000,000	$0.10	18 November 2021
Dario E. Sodero	18 November 2016	500,000	$0.10	18 November 2021
Erik Larre	18 November 2016	500,000	$0.10	18 November 2021
Francesco Salimbeni	–	–	–	–
Andrew Morrison	–	–	–	–
Alan Hume	–	–	–	–

8 Financial assistance to purchase Common Shares of the Company or its holding company

The Company may give financial assistance to any person in connection with the acquisition of its own Common Shares, subject to applicable law.

9 Purchase of Common Shares

A company may, subject to applicable law and its articles, purchase, redeem or otherwise acquire and hold its own shares in the manner provided for under its articles.

Subject to any limitations in the memorandum or articles, shares that a company purchases, redeems or otherwise acquires may be cancelled or retained.

A company is not prohibited from purchasing and may purchase its own warrants subject to applicable laws and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under British Columbia law that a company's articles contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its articles.

10 Protection of minorities

The Business Corporations Act (British Columbia) provides certain statutory remedies to Shareholders including derivative actions, personal actions and representative actions. The courts may consider claims by shareholders alleging that a company has acted in a manner aggressive or unfairly prejudicial to a shareholder.

The Business Corporations Act (British Columbia) further provides that any shareholder of a company is entitled to payment of the fair value of his shares upon dissenting from any of the following:

(a) certain amendments to the articles of the company;

(b) a merger, if the company is a constituent company, unless the company is the surviving company and the shareholder continues to hold the same or similar class of shares;

(c) an amalgamation, other than in the case of certain wholly-owned companies;

(d) any sale, transfer, lease or other disposition of all or substantially all of the company's undertaking other than in the orderly course of business;

(e) a continuation to a jurisdiction other than British Columbia; or

(f) an arrangement, if permitted by the court.

Generally any other claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the British Columbia.

Amalgamations and arrangements generally require the approval of two thirds of the votes entitled to vote and voted at a meeting to approve the transaction.

Any sale, transfer, lease or other disposition of all or substantially all of the undertaking of the company other than in the ordinary course of business, requires the approval of two thirds of the votes entitled to vote and voted at a meeting to approve the transaction.

Shareholders dissenting from the proposal to dispose of 50% or more of the assets or from any arrangement (which may cover other types of reorganisation or reconstruction of a company) are entitled to require the company to pay the fair value of their shares, in accordance with the procedures and conditions laid down by the Business Corporations Act (British Columbia).

In addition, the Company is subject to Multilateral Instrument 61-101 Protection of Minority Security Holders in Special Transactions, that regulates transactions such as "insider bids", "issuer bids," "business combinations" and "related party transactions" in order to ensure equal treatment of shareholders. Pursuant to the rule, certain transactions may be subject to valuation and shareholder voting requirements that are in addition to those imposed by the Business Corporations Act (British Columbia) and the rules of the TSXV.

11 Management

The Company is managed by its Directors, consisting of not less than three directors. Directors are required under the Business Corporations Act (British Columbia) to act honestly and in good faith with a view to the best interests of the company, and to exercise the care, diligence and skill that a reasonably prudent individual would exercise in comparable circumstances. As outlined above, certain actions require prior approval of the Shareholders, as a matter of statute. While the Company may provide certain indemnity for its Directors, the Business Corporations Act (British Columbia) precludes the Directors from taking advantage of such indemnities unless they act honestly and in good faith and in what they believed to be in the best interests of the Company, and in the case of criminal proceedings, where the Director had no reasonable cause to believe that his conduct was unlawful.

12 Inspection of corporate records

Shareholders are entitled to inspect the Articles, the register of directors and other documents listed in the Business Corporation Act at the records office.

13 Winding up

The Business Corporations Act (British Columbia) makes provision for both voluntary and compulsory winding up of a company. The shareholders may resolve to appoint a voluntary liquidator.

14 Takeovers

The Business Corporations Act (British Columbia) and Canadian securities legislation govern takeover bids for Canadian companies incorporated in the Province of British Columbia. A takeover bid is generally defined as an offer to acquire outstanding voting or equity securities of a class, made to any holder in the local jurisdiction of the securities, if such securities, together with the securities held by the offeror and any person acting jointly or in concert with the offeror would constitute 20% or more of the outstanding securities of that class, in the aggregate, at the date of the offer. A takeover bid must be made to all holders of securities of the class subject to the bid who are in the local jurisdiction (with limited exceptions) and must allow those holders at least 105 days to deposit securities pursuant to the bid. Notwithstanding the foregoing, the Canadian Securities Administrators have adopted a policy permitting them to issue a cease trade order in the event the takeover offer is not made to all Canadian security holders.

The availability of a takeover bid to shareholders residing outside Canada will be dependent on whether such takeover bid may be made to such non-Canadian shareholders pursuant to applicable legislation of the jurisdiction in which the non-Canadian shareholders resides and the actions of the offeror.

A takeover bid circular will be delivered to the security holders by the offeror detailing the terms of the bid. The directors of the reporting issuer (in this case, the Company) would then be required to deliver a directors' circular within 15 days of the date of the bid. The directors' circular would set out the Board's recommendation to accept or reject the bid, including reasons therefor or a statement that the Board is unable to comment and providing reasons in support of that position.

The Business Corporations Act (British Columbia) permits an acquiror who has been successful in acquiring 90% of the shares of a company (excluding those shares already held by the acquiror), to, within four months of making the offer to acquire such shares, send written notice to any shareholder who did not accept the offer, compelling them to sell their shares on the same terms as contained in the original offer. The tendering obligation is subject to the right of the shareholder to make application to the court, which may set the terms of the transaction and make any other consequential orders it deems fit. There is no reciprocal mechanism under Canadian law permitting a shareholder who refuses the original offer to compel the acquiror to acquire its shares on the terms of the original offer.

Significant amendments to the takeover bid regime in Canada came into force on 9 May 2016. Among other things the amendments:

(a) have a mandatory tender condition that a minimum of more than 50% of all outstanding securities of the class subject to the bid be tendered and not withdrawn before the bidder can take up any securities under the bid (the "**New Mandatory Minimum Tender Condition**");

(b) the bid must be extended by the bidder for at least 10 days once the New Mandatory Minimum Tender Condition has been satisfied and all other terms and conditions of the bid have been complied with or waived; and

(c) the bid must remain open for a minimum deposit period of 105 days. A target company will be allowed to reduce the deposit period to not less than 35 days in certain circumstances and subject to certain conditions.

15 Disclosure of Interests in Common Shares

The Company is a reporting issuer in Canada and is subject to Canadian securities laws. Pursuant to such laws, when a person (an "**Acquiror**") acquires beneficial ownership of, or the power to exercise control or direction over, or securities convertible into, voting or equity securities of any class of a reporting issuer (such as the Company) that, together with such Acquiror's securities would constitute 10% or more of the outstanding securities of that class, the Acquiror must immediately issue and file a press release announcing the acquisition and file a report of the acquisition with the applicable securities regulatory authority within two business days thereafter. Certain institutional investors may elect an alternate reporting system. The Acquiror has a continuing obligation to disclose each further acquisition or disposition of a beneficial ownership of, the power to exercise direction or control over, or securities convertible into an additional 2% or more of the outstanding securities of the applicable class.

The Company is required by Form 51-102F5 of National Instrument 51-102 – Continuous Disclosure Obligations, to disclose in its information circulars whether, to the knowledge of the Company's Directors or executive officers, any person or company beneficially owns, or controls or directs, directly or indirectly, voting securities carrying 10% or more of the voting rights attached to any class of voting securities of the Company.

16 Directorships and partnerships

In addition to their respective roles and directorships at the Company, the Directors, the Proposed Director and the Senior Manager are, or have been, members of the administrative, management or supervisory bodies (the "**directorships**") or partners of the following companies or partnerships, at any time in the five years prior to the date of this Document.

Name	Current directorships/ partnerships	Previous directorships/ partnerships
Jose Ramon Lopez-Portillo	Hybridair Ltd World SkyCat Ltd	–
Luigi Regis Milano	DP Lubrificanti S.r.l.	–
Andrea Cattaneo	–	Belpeso Ltd.
Dario E. Sodero	Planaval Resources Ltd. Rockbridge Resources Inc.	Cygam Energy Inc.
Francesco Salimbeni	ADECO Technologies Ltd ADECO SICEC Engineering & Construction SA ASI PVT LTD INGECO International SA	AD Agroindustrial Development Company SA
Erik Larre	Black Sea Property EME Int. Ltd German Property AS TF Italia Srl Tonsenhagen Forrenthingssentrum AS Tonsenhagen Forrenthingssentrum 2	Larre Eiendom AS Rom Real Ltd Sparebank 1 Nord – Norge Bank
Andrew Morrison	Spinnaker Management Resources Ltd Spinnaker Opportunities Plc	Silvermere Energy Plc Zeta Petroleum Plc
Alan Hume	–	Elko Americas Elko Energy A/S Elko Energy Business Services Limited Elko Energy BV Elko Energy Inc Elko Energy International Elko Europe Elko Exploration BV Elko MEA Elko (UK) Limited London Green (194-199) Management Limited RPK Finance&Holdings BV Xtract Energy Holdings Ltd. Xtract International Ltd. Xtract Oil Limited Zhibek Resources Limited

17 Directors' confirmations

17.1 As at the date of this Document, none of the Directors, nor the Proposed Director or the Senior Manager has, at any time within the last five years:

(a) had any convictions in relation to fraudulent offences;

(b) been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or senior management of any company or other entity;

(c) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including any designated professional bodies); or

(d) ever been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Mr. Cattaneo was appointed as a director of PEX Plc on 20 December 1995, a company listed on the main market of the London Stock Exchange, manufacturing socks, holder of the brands Pex and Bridgedale. Following a severe deterioration of the market in which PEX Plc operated, on 5 November 1999 PEX Plc was placed into administration ultimately resulting in its insolvent liquidation.

17.2 Certain Directors of the Company are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies set out in the Articles and the Business Corporations Act (British Columbia). Save as set out below, as at the date of this Document there are no potential conflicts of interest between any duties owed by the Directors, the Proposed Director or the Senior Manager of the Company and their private interests or other duties:

(a) Mr. Luigi Regis Milano is a director do DPL Raffineria S.r.l., a company which operates in the oil and gas sector;

(b) Mr. Dario Sodero is the is the President and sole director of Planaval Resources Ltd, and a director of RockBridge Resources Inc., two oil and gas companies; and

(c) an agreement is currently in place between the Company and Spinnaker Management Resources Ltd, a company controlled by Andrew Morrison, for the procurement of the consultancy services of Mr. Morrison. Further details of the Consultancy Agreement are set out in paragraph 25.4 below.

18 Directors' and other interests

18.1 In addition to the Options and Warrants referred to in paragraphs 18.2 and 18.3 below, respectively, the interests (beneficial or non-beneficial) in the shares of the Company or any of its subsidiaries held by the Directors, the Proposed Director and the Senior Manager and their respective Connected Persons as at the date of this Document, as well as the anticipated interests of such persons immediately following Admission, are as follows:

	As at the date of this Document		Immediately following the Placing and Admission	
Name	**Number of Common Shares**	**Percentage of issued Common Shares (%)**	**Number of Common Shares**	**Percentage of Enlarged Common Shares in Issue (%)**
Jose Ramon Lopez-Portillo	48,000	0.07	48,000	0.05
Luigi Regis Milano(1) (2)	3,495,740	5.41	3,495,740	3.55
Andrea Cattaneo	1,447,485	2.24	1,447,485	1.47
Dario E. Sodero(3)	77,500	0.12	77,500	0.08
Erik Larre(4)	4,334,068	6.71	4,334,068	4.40
Francesco Salimbeni	–	–	–	–
Andrew Morrison(5)	1,879,474	2.91	1,879,474	1.91
Alan Hume(6)	–	–	668,571	0.68

Notes:

(1) Luigi Regis Milano also holds a minority interest of 1.36% in Company's subsidiary, Canoel Italia S.r.l.

(2) The 3,495,740 Common Shares stated for Luigi Regis Milano are held by Pole Position SRL, a company controlled by members of Mr. Regis Milano's immediate family. The relevant members of Mr. Regis Milano's immediate family own 100% of the share capital of Pole Position SRL. Mr. Regis Milano is also the sole director of Pole Position SRL.

(3) The 77,500 Common Shares in which Dario Sodero has a beneficial interest are held by Planaval Resources Ltd., a company controlled by Mr. Sodero. Mr. Sodero owns 100% of the share capital of Planaval Resources Ltd.

(4) The 4,334,068 Common Shares in which Erik Larre has a beneficial interest are held by Tonsenhagen Forretningssentrum, a company controlled by Mr. Larre. Mr. Larre owns 100% of the share capital of Tonsenhagen Forretningssentrum.

(5) The 1,879,474 Common Shares in which Andrew Morrison has a beneficial interest are held by Fitel Nominees Limited on behalf of Mr. Morrison's Self Invested Personal Pension.

(6) Mr. Hume is entitled to receive a fee of £12,000 per month for the period beginning on 14 September 2016 (when he joined the Company as Chief Financial Officer) and it has been agreed with the Company that this fee will be satisfied on Admission by way of issue of Common Shares in the Company to Mr. Hume (the value of which will be calculated by reference to the Placing Price). Starting from the month following Admission, it has been agreed with the Company that Mr. Hume's remuneration will be satisfied 50% in cash and 50% through the issuance of Common Shares in the capital of the Company.

18.2 As at 30 December 2016 (being the latest practicable date prior to publication of this Document) the Warrants held by the Directors, the Proposed Director and the Senior Manager and their respective Connected Persons, are as follows:

Name	Date of Grant	Number of Shares covered by the Warrants	Exercise Price (CAD$)	Expiry Date
Jose Ramon Lopez-Portillo	–	–	–	–
Luigi Regis Milano(1)	16 December 2014	333,333	0.25	16 December 2017
	7 November 2016	1,612,142	0.20	7 November 2018
Andrea Cattaneo	13 June 2014	318,333	0.25	5 May 2017
	16 January 2015	333,333	0.25	16 January 2018
	7 November 2016	583,333	0.20	7 November 2018
Dario E. Sodero	–	–	–	–
Francesco Salimbeni	–	–	–	–
Erik Larre(2)	16 December 2014	666,666	0.25	16 December 2017
	16 June 2016	1,519,250	0.15	16 June 2018
	10 October 2016	1,306,050	0.20	10 October 2018
Andrew Morrison(3)	29 January 2016	1,272,813	0.15	29 January 2018
	10 October 2016	500,000	0.20	10 October 2018
	7 November 2016	106,661	0.20	7 November 2018
Alan Hume	–	–	–	–

Notes:

(1) The 1,945,475 Warrants stated for Luigi Regis Milano are held by Pole Position SRL, a company controlled by members of Mr. Regis Milano's immediate family. The relevant members of Mr. Regis Milano's immediate family own 100% of the share capital of Pole Position SRL. Mr. Regis Milano is also the sole director of Pole Position SRL.

(2) The 3,491,966 Warrants in which Erik Larre has a beneficial interest are held by Tonsenhagen Forretningssentrum, a company controlled by Mr. Larre. Mr. Larre owns 100% of the share capital of Tonsenhagen Forretningssentrum.

(3) The 1,879,474 Warrants in which Andrew Morrison has a beneficial interest are held by Fitel Nominees Limited on behalf of Mr. Morrison's Self Invested Personal Pension.

18.3 As at the date of this Document, the Options set out in paragraph 7.10 above have been granted to the Directors, the Proposed Director and the Senior Manager pursuant to the Stock Option Plan.

18.4 Save as disclosed in paragraphs 18.1, 18.2 and 18.3 above, no Director, nor the Proposed Director or the Senior Manager or their respective Connected Persons has, nor will they have immediately following Admission, any interest (whether beneficial or non-beneficial) in the share or loan capital of the Company or any of its subsidiary undertakings.

18.5 Under Canadian law, any person or company that has beneficial ownership of, or control or direction over, whether direct or indirect, or a combination of beneficial ownership of, and control or direction over, whether direct or indirect, securities of an issuer carrying more than 10% of the voting rights attached to all the issuer's outstanding voting securities, including securities (issued and unissued) that the person or company is the beneficial owner of, which are convertible into voting securities within 60 days following that date, or has a right or obligation permitting or requiring the person or company, whether or not on conditions, to acquire beneficial ownership of the security within 60 days, by a single transaction or a series of linked transactions, is required to notify their holdings publicly. As at 30 December 2016 (being the latest practicable date before publication of this Document), in addition to the interests of the Directors, the Proposed Director and the Senior Manager and their respective Connected Persons disclosed in paragraphs 18.1, 18.2 and 18.3 above, the Company is not aware of any Shareholders that have a notifiable interest under Canadian law ("**Major Shareholders**").

18.6 The Company is not aware of any Major Shareholders that intend to participate in the Placing and the Directors, the Proposed Director and the Senior Manager have not made any applications in respect of the offer of Placing Shares. Alan Hume is entitled to receive a fee of £12,000 per month for the period beginning on 14 September 2016 (when he joined the Company as Chief Financial Officer) and it has been agreed with the Company that this fee will be satisfied on Admission by way of issue of Common Shares in the Company to Mr. Hume (the value of which will be calculated by reference to the Placing Price). Starting from the month following Admission, it has been agreed with the Company that Mr. Hume's remuneration will be satisfied 50% in cash and 50% through the issuance of Common Shares in the capital of the Company.

18.7 Immediately following Admission, as a result of the Placing, the Directors expect that a number of persons will have an interest, directly or indirectly, in at least 3% of the voting rights attached to the Company's issued Common Shares. Such persons will be required to notify such interests to the Company in accordance with the provisions of Chapter 5 of the Disclosure Guidance and Transparency Rules sourcebook, and such interests will be notified by the Company to the public.

18.8 As at 30 December 2016 (being the latest practicable date prior to the publication of this Document), the Company was not aware of any person or persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

18.9 Those interested, directly or indirectly, in 3% or more of the issued Common Shares of the Company do not now and, following the Placing and Admission, will not have, different voting rights from other holders of Common Shares.

19 Directors' terms of employment

The Directors and their functions are set out in Part 11: "*Directors, Senior Management and Corporate Governance*". The Directors are appointed at each annual general meeting of the Shareholders (each an "**AGM**") and may also be appointed at a special meeting of shareholders if one of the purposes for which the meeting was called was the election of directors. Directors will hold office until the close of the next AGM or until a successor is duly elected or appointed or his or her office is earlier vacated in accordance with the Business Corporations Act (British Columbia) and the Articles of the Company.

The Directors' may receive an annual retainer, meeting fees plus options (which options are set within the guidelines prescribed by the TSXV) and expense reimbursements. The Remuneration Committee is responsible for reviewing and recommending to the Board the retainer and fees to be paid to members of the Board and intends to review the Directors' compensation following Admission.

A director's term of office is terminable in accordance with the provisions of the Business Corporations Act (British Columbia). Pursuant to the Business Corporations Act(British Columbia), a director will cease to hold office by reason of: (i) death or resignation; (ii) expiration of his or her term of office; or (iii) removal or disqualification in accordance with the provisions of the Business Corporations Act (British Columbia). A director may be removed from office if the shareholders of a corporation so vote by special resolution or otherwise as provided for in the Articles. A director may become disqualified if: (i) he is less than 18 years of age; (ii) is found by a court to be of unsound mind; (iii) is an undischarged bankrupt; or (iv) is convicted of an offense involving fraud. Further details of the terms of employment of each Director are set out below.

The Company has put together a Board that it believes has the expertise to identify, select and complete successful acquisitions and to manage the Group.

For the current financial year, the Directors and the Proposed Director will be entitled to receive a fee to be determined by the Remuneration Committee following Admission.

On Admission, the Board will comprise the following Directors:

EXISTING DIRECTORS

The Directors are subject to the Canadian common law fiduciary duty in respect of the Company which obliges them not to disclose the confidential information of the Company and to act honestly and in good faith, with a view to the best interests of the Company. Mr Lopez-Portillo, Mr. Sodero, Mr. Salimbeni and Mr. Larre do not have a service contracts with the Company or any other member of the Group.

19.1 **Jose Ramon Lopez-Portillo**

Mr Lopez-Portillo was appointed as a Non-Executive Director of the Company with effect from 24 September 2007. He also acts as Chairman of the Board. The appointment is terminable pursuant to the provisions of the Business Corporations Act (British Columbia). Mr Lopez-Portillo currently receives no compensation for his service as Director. Mr Lopez-Portillo is not entitled to receive any compensation on termination of his appointment.

19.2 **Luigi Regis Milano**

Mr. Regis Milano has entered into a service agreement with the Company dated 16 February 2016, to act as the Director and CFO of the Company, which continues until terminated on written notice by either party. Mr. Regis Milano's role as Chief Financial Officer, which began on 28 November 2012, ceased with effect from 7 March 2016. Where termination notice is served by the Company, it is with immediate effect unless given for just cause (as defined in the service agreement). As director of the Italian subsidiary Canoel Italia S.r.l, for the financial year ending 31 March 2016 Mr. Regis Milano received a fee of £31,685 (payable by Canoel Italia S.r.l.). Mr. Regis Milano's service agreement contains various post-termination confidentiality and non-compete covenants which are customary in agreements of this nature in order to protect the Group's business.

19.3 **Andrea Cattaneo**

Mr. Cattaneo has entered into an agreement for services with the Company dated 28 October 2016, to act as President and CEO of the Company for a term of one year from the date of the agreement. The agreement provides for an annual fee of CAD $200,000. The Company may terminate the appointment immediately without notice or any payment in lieu of notice for "Just Cause" (which includes, for example, being convicted of a criminal offence or where there is a repeated and demonstrated failure by Mr. Cattaneo to perform his material duties in a competent manner after having been given reasonable notice of such failure and a reasonable opportunity to remedy such failure). Mr. Cattaneo may terminate his appointment by three months' written notice to the Company or at any time for "Good Reason" (for example, a material change in duties or a change of control of the Company) where the Company fails to cure such "Good Reason" within 30 days of notice thereof. The Company agrees that it will not terminate Mr. Cattaneo's employment or engagement or permit the agreement for services to lapse while Mr. Cattaneo's personal guarantee in connection with the Company's loan arrangements with Jiu Feng Investment Hong Kong Limited remains in force. As legal representative of the Group's Argentinian subsidiary Mr. Cattaneo also receives an annual fee of £24,000. Mr. Cattaneo's service agreement contains certain confidentiality and non-compete covenants in order to protect the Group's business.

19.4 **Dario E. Sodero**

Mr. Sodero was appointed as a Non-Executive Director of the Company with effect from 24 June 2009. The appointment is terminable pursuant to the provisions of the Business Corporations Act (British Columbia). Mr. Sodero currently receives no compensation for his service as Director. For the financial year ending 31 March 2016, Mr. Sodero received a fee for professional consulting services of £10,119. Mr. Sodero is not entitled to receive any compensation on termination of his appointment.

19.5 **Francesco Salimbeni**

Mr. Salimbeni was appointed as a Non-Executive Director of the Company with effect from 16 February 2016. The appointment is terminable pursuant to the provisions of the Business Corporations Act (British Columbia). Mr. Salimbeni currently receives no compensation for his service as Director. Mr. Salimbeni is not entitled to receive any compensation on termination of his appointment.

19.6 **Erik Larre**

Mr. Larre was appointed as a Non-Executive Director of the Company with effect from 22 March 2011. The appointment is terminable pursuant to the provisions of the Business Corporations Act (British Columbia). Mr. Larre currently receives no compensation for his service as Director. Mr. Larre is not entitled to receive any compensation on termination of his appointment.

PROPOSED DIRECTOR TO BE APPOINTED ON ADMISSION

Once appointed as a Director, the Proposed Director (Andrew Morrison) will be subject to the Canadian common law fiduciary duty in respect of the Company which obliges him not to disclose the confidential information of the Company and to act honestly and in good faith, with a view to the best interests of the Company. Mr. Morrison will not have a service contract with the Company or any other member of the Group.

19.7 **Andrew Morrison**

Mr. Morrison will be appointed as a Non-Executive Director as soon as reasonably practicable following Admission. The appointment will be terminable pursuant to the provisions of the Business Corporations Act (British Columbia). Mr. Morrison will receive £30,000 per annum compensation for his services as Director. Mr. Morrison will be not entitled to receive any compensation on termination of his appointment. An agreement is currently in place between the Company and Spinnaker Management Resources Ltd, a company controlled by Mr. Morrison, for the procurement of the consultancy services of Mr. Morrison. Further details of the Consultancy Agreement are set out in paragraph 25.4 below.

20 Personnel

20.1 As at 30 December 2016 (being the latest practicable date prior to publication of this Document) the Company and its subsidiaries had 217 full time employees based in its offices in Buenos Aires and Comodoro Rivadavia in Argentina, Baku in Azerbaijan and Genoa in Italy.

20.2 The daily operations and maintenance of producing fields in Italy are managed, on behalf of Canoel Italia S.r.l., by a leading service company that employs more than 12 work units for the management of the wells. These numbers are not included in the roster of the Company's employees.

21 Working Capital

The Company is of the opinion that, taking into account the Net Proceeds receivable by the Company, the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of this Document.

22 Significant change

Save for the following changes, there has been no significant change in the trading or financial position of the Company since 30 September 2016, being the end of the last financial period for which the interim financial information contained in Part 16: "*Historical Financial Information*" has been prepared:

(a) In November 2016, the parties amended the terms of the USD Loan so that the initial repayment of USD$ 700,000 is required on 20 December 2016.

(b) On 3 November 2016 the repayment terms of the First Credit Agreement were amended such that USD $50,000 became payable on 30 November 2016 and the remaining USD $270,000 and accrued interest is now payable on 16 February 2017.

(c) On 7 November 2016, the Company 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 $329,407.44. Insiders of the Company subscribed for an aggregate of 2,195,475 units for aggregate subscription proceeds of CAD $263,457. 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.

(d) In December 2016, the parties amended the terms of the USD Loan so that the initial repayment of USD $700,000 is required on 10 January 2017.

(e) In January 2017, the parties amended the terms of the USD Loan so that the initial repayment of USD $700,000 is required on 15 January 2017.

(f) The payment of certain expenses and fees relating to the proposed Admission, amounting to approximately CAD $68,000.

23 Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) since the Company's incorporation which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company.

24 City Code

The City Code does not apply to the Company. There are no Canadian laws relating to the Common Shares and squeeze-out and/or sell-out rules, save as provided by the Business Corporations Act (British Columbia) and Canadian securities laws (as to which see the paragraph 14 of this Part 18).

25 Material contracts

The following are all of the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by the Group which (i) are, or may be, material to the Group; or (ii) contain obligations or entitlements which are, or may be, material to the Group as at the date of this Document.

25.1 Placing and Broker Agreement with Optiva Securities Limited

Pursuant to a broker agreement dated 8 June 2016 between the Company and Optiva Securities Limited, Optiva Securities Limited (2, Mill Street, London W1S 2AT) has agreed to assist in co-ordinating the Placing, which includes using reasonable endeavours to procure placees and to act as corporate broker to the Company following Admission.

In consideration for its services in relation to the Placing and Admission, Optiva Securities Limited will be paid (i) £25,000 per annum (plus applicable VAT) (to be paid in equal quarterly instalments in advance) and (ii) a commission of 6% of the aggregate funds raised by Optiva Securities Limited via the Placing and 6% broker warrants (which fees shall accrue on a daily basis until the date of termination of the agreement). The agreement contains customary warranties, representations and indemnities given by the Company to Optiva Securities Limited.

The agreement is terminable on three months' written notice by either party, provided that such notice of termination is to expire not earlier than 12 months from the date of the appointment. The agreement contains provision for early termination in certain circumstances.

25.2 **Transfer Agency and Registrarship Agreement**

The Company entered into a transfer agency and registrarship agreement (the "**Registrar Agreement**") with Olympia Trust Company ("**Olympia**") on 5 March 2008. On 11 July 2014, the Company consented to the assignment and transfer by Olympia to Computershare Trust Company of Canada (the "**Registrar**") of all of the right, title and interest of Olympia in the Registrar Agreement. The formal assignment and transfer to the Registrar occurred on such date as was determined by the Registrar on or before 30 November 2014.

Pursuant to the Registrar Agreement, the Company appoints the Registrar to act as registrar and transfer agent to the Company, to keep, inter alia, the registers of holders and the registers of transfers for the Common Shares in the capital of the Company at its principal office in Calgary, Canada and to provide certain other administrative services to the Company in relation to its business and affairs.

The Company is required to pay for the services provided in accordance with a tariff or schedule of fees, which fees are subject to revision from time to time during the term of the agreement. The Company is also required to reimburse all costs and expenses, including the fees, disbursements and expenses of any sub-agents, advisors and legal counsel, if applicable, incurred in carrying out the duties under the Registrar Agreement.

If the Company defaults in its payment obligations under the Registrar Agreement, the Registrar has the right to immediately terminate the agreement. In addition, the Registrar Agreement may be terminated by either party upon three months' written notice.

Under the Registrar Agreement the Company indemnifies the Registrar (provided it has acted in good faith and without negligence), its directors, officers, employees, agents and assigns against all liabilities, losses, claims, damages, penalties, actions, suits, demands, costs, expenses and disbursements (including legal and advisor fees and disbursements) howsoever arising from or out of any act or omission of the Registrar pursuant to or in relation to the Registrar Agreement.

25.3 **Depositary Agreement**

A depositary agreement dated 3 January 2017 (the "**Depositary Agreement**") between the Company and Computershare Investor Services PLC (the "**Depositary**") under which the Company appoints the Depositary to constitute and issue from time to time, upon the terms of the deed poll executed by Computershare on or about the date of the Depositary Agreement (the "**Deed Poll**"), a series of uncertificated depositary interests ("**Depositary Interests**") representing securities issued by the Company and to provide certain other services in connection with such Depositary Interests with a view to facilitating the indirect holding by participants in CREST. Computershare agrees that it will comply with the terms of the Deed Poll and that it will perform its obligations with reasonable care and skill. Computershare assumes certain specific obligations, including the obligation to issue to a CREST member Depositary Interests in uncertificated form and to maintain the register of Depositary Interests. Computershare undertakes to provide the depositary services in compliance with the requirements of the Financial Services and Markets Act 2000. Computershare will either itself or through its appointed Custodian as bare trustee hold the deposited property (which includes, *inter alia*, the securities represented by the Depositary Interests) as may be designated from time to time by the Depositary. The Company agrees to provide such assistance, information and documentation to Computershare as is reasonably required by Computershare for the purposes of performing its duties, responsibilities and obligations under the Deed Poll and the Depositary Agreement, including (to the extent available to the Company) information, which concerns or relates to Computershare's obligations under the Depositary Agreement. The agreement sets out the procedures to be followed where the Company is to pay or make a dividend or other distribution. The Company is to indemnify Computershare for any loss it may suffer as a result of the performance of the Depositary Agreement except to the extent that any losses result from Computershare's own negligence, fraud or wilful default. Computershare is to indemnify the Company for any loss the Company may suffer as a result of or in connection with Computershare's fraud, negligence or wilful default save that the aggregate liability of the Depositary to the Company over any 12 month period shall in no circumstances whatsoever exceed twice the amount of the fees payable to the Depositary in any 12 month period in respect of a single claim or in the aggregate. Subject to earlier termination, the Depositary is appointed for a fixed term of one year and thereafter until terminated by either party giving not less than six months' notice. In the event of termination, the parties agree to phase out the Depositary's operations in an efficient manner without adverse effect on the members of the Company and the Depositary shall deliver to the Company (or as it may direct) all documents, papers and other records relating to the Depositary Interests which are in its possession and which is the property of the Company. The Company is to pay certain fees and charges, including a an annual fee, a fee based on the number of Depositary Interests per year and certain CREST related fees. Computershare is also entitled to recover reasonable out of pocket fees and expenses.

25.4 **Engagement Letter with Spinnaker Management Resources Ltd**

On 7 July 2016, the Company entered into an agreement with Spinnaker Management Resources Ltd ("**Spinnaker**") to procure the acceptance by Andrew Morrison ("**AM**") of his appointment as consultant and adviser to the Company (the "**Consultancy Agreement**"). AM's duties include the provision of general executive and advisory services in connection with the Company's UK investor relations, business development and preparation for further corporate development and/or its admission to trading on the London Stock Exchange. Spinnaker is required to make available the services of AM for up to one day per week (based on a 7 working hour day). Spinnaker may also be required to procure that AM attends certain functions, meetings or events relating to the Company. A monthly fee of £2,000 is payable to Spinnaker, such fee being separate and additional to any fees relating to AM's proposed role as a non-executive director of the Company.

AM's appointment commenced on 1 July 2016 and continues until terminated by either party on one month's written notice (except that the Company may not terminate AM's appointment sooner than 12 months from the commencement date). In certain circumstances, the Company may also by written notice terminate AM's appointment immediately (at any time after the commencement of AM's appointment). Such circumstances include, inter alia, where Spinnaker and/or AM cannot perform their duties to the reasonable satisfaction of the Board, become insolvent/bankrupt, become disqualified from acting as a director or are convicted of a criminal offence.

Except as specifically authorised by the Board, neither Spinnaker nor AM has any personal authority to exercise any powers of the Company or enter into any legally binding obligation on its behalf. Spinnaker is subject to obligations of confidentiality towards the Company and is also required to procure that AM observes such obligations.

The Consultancy Agreement contains a broad undertaking by the Company to indemnify and hold harmless Spinnaker and AM against all claims, losses, damages and liabilities arising out of, inter alia, the performance of their obligations under the agreement, any failure by the Company or its associates to comply with applicable law, any wrongful or tortious act or omission on the part of any such person or any breach by any such person of any duty of care. Spinnaker indemnifies the Company against all claims and liabilities in respect of any demand by HM Revenue & Customs (or other relevant authority) against the Company in respect of tax or national insurance contributions or other contributions due in relation to the fees payable under the Consultancy Agreement.

25.5 **REDPSA**

On 16 March 2016, the Company's wholly-owned subsidiary, Zenith Aran, entered into the REDPSA with SOCAR and SOA, a wholly-owned subsidiary of SOCAR (Zenith Aran and SOA being referred to herein as the "**Contractor Parties**"). The REDPSA covers 642 square kilometres which include the active Muradkhanli, Jafarli and Zardab oil fields (the "**Contract Area**"). Zenith Aran will hold an 80% participating interest in the REDPSA while SOA holds the remaining 20%. The delivery of the capital assets previously used in respect of the petroleum operations at the three fields in Azerbaijan from the previous operating company to Aran Oil Operating Company Limited, a wholly-owned subsidiary of the Contractor Parties, officially completed on 11 August 2016 (the "**Effective Date**").

Under the REDPSA, the Contractor Parties must provide all necessary funds to explore, appraise, evaluate, and develop the crude oil and natural gas resources within the Contract Area.

The Contract Area includes areas where the existing production needs to be improved (the "**Contract Rehabilitation Area**") and where new production needs to be developed (the "**Contract Exploration Area**"). The Contractor Parties have different obligations in respect of each area.

Rehabilitation and production programme

Within 150 days of the Effective Date, being 11 August 2016, the Contractor Parties are required to prepare and submit a rehabilitation and production programme to achieve an average daily crude oil production from the Contract Rehabilitation Area of 1.5 times the average daily production rate in 2015 by no later than two years following SOCAR's approval of the programme. The rehabilitation and production programme is currently being finalised by the Company's technical team and the Directors anticipate that Contractor Parties will submit the programme to SOCAR imminently (in any event within the 150 day timeframe). The rehabilitation and production programme required pursuant to the REDPSA will be based principally on recommendations contained in the CPR. As described in more detail in the CPR and in paragraph 7 of Part 10: "*Information on the Group*", the programme will include plans to workover a total of 44 existing wells in Azerbaijan which are currently inactive or produce at low rates and it is estimated that 10 wells will be worked over in 2017, 11 wells in 2018, 15 wells in 2019 and eight wells in 2020. The rehabilitation and production programme remains subject to finalisation and agreement with SOCAR in accordance with the terms of the REDPSA.

SOCAR has 60 days to approve the rehabilitation and production programme and is required, pursuant to the terms of the REDPSA, not to unreasonably withhold its approval. If SOCAR requests changes to the rehabilitation and production programme, the parties must discuss a revised rehabilitation and production programme. If the rehabilitation and production programme has not been approved by SOCAR within 60 days of the commencement of such discussions, Zenith Aran and SOA can elect to have the matter referred to an arbitrator to determine, through the arbitration procedure set out in the REDPSA, whether SOCAR's approval of the rehabilitation and production programme has been unreasonably withheld. In the event that the arbitrator's decision is that SOCAR reasonably withheld its approval of the rehabilitation and production programme, the Contractor Parties will have the right to either (i) accept the changes proposed by SOCAR; or (ii) terminate the REDPSA. In the event that the Contractor Parties do not submit a rehabilitation and production programme within the specified time limit or do not achieve the minimum average daily crude oil production rate within two years following SOCAR's approval of the programme, they will be in material breach of the REDPSA and SOCAR will have a right to terminate the provisions of the REDPSA relating to the contract rehabilitation area.

The development and production period for the Contract Rehabilitation Area is 25 years from the date of SOCAR's approval of the Contractor Parties rehabilitation and production programme which is anticipated to occur in early 2017. A possible additional five year extension may be approved by SOCAR.

Minimum exploration work programme

Pursuant to the terms of the REDPSA, within the four year period commencing on the Effective Date, being 11 August 2016, the Contractor Parties will be required to carry out a minimum exploration work programme in the Contract Exploration Area including the following work:

1. to carry out an upper section site investigation survey to ensure a safe and environmentally sound base for drilling, and to shoot, process and interpret two-dimensional seismic or a minimum of sixty square kilometres of three-dimensional seismic (this will be decided by the Company at the relevant time), in the specified exploration area; and

2. to drill a well to a depth of five thousand metres from the ground surface, or to the depth of 50 metres below the top of the Upper Cretaceous formation, whichever occurs first, and evaluate the drilled well using an appropriate logging and testing programme.

The REDPSA does not contain any milestones in respect of the minimum exploration work programme. If the Contractor Parties fail to perform any of the above obligations they will be in material breach of the REDPSA and SOCAR will have a right to terminate the provisions of the REDPSA relating to the Contract Exploration Area.

The development and production period for the Contract Exploration Area is 25 years from the date of SOCAR's approval of the development programme (which is possible only upon the completion of the exploration period of up to four years from the Effective Date; in other words, SOCAR approves the development programme after there is a discovery (see 'Discoveries' below) upon the completion of the exploration period). A possible additional five year extension may be approved by SOCAR.

Discoveries

Before the end of the four year exploration period (or any extended period), the Contractor Parties shall notify SOCAR of any discoveries of accumulations of petroleum. Within six months of submission of a notice of discovery the Contractor Parties must submit a development programme for the relevant discovery for approval by SOCAR. If the Contractor Parties fail to submit a development programme within the six month timeframe SOCAR has the right to terminate the REDPSA in relation to the Contract Exploration Area by written notice within 30 days following the expiry of said six month timeframe. If commercial production of crude oil and natural gas has not been commenced by the Contractor Parties within 24 months of approval by SOCAR of the development plan, SOCAR is entitled to terminate the REDPSA in relation to the Contract Exploration Area by giving written notice.

Termination

The REDPSA can be terminated at any time by either party if the other party commits a material breach of the REDPSA or the "Government Guarantee" in the form attached to the REDPSA and fails to remedy such breach within 90 days of written notice from the other party. SOCAR may terminate by 90 days written notice for, inter alia, certain insolvency events. The Contractor Parties may voluntarily relinquish the Contract Area by giving 90 days written notice to SOCAR.

Compensatory petroleum

The Contractor Parties have an obligation to:

1. within one year following the Effective Date, deliver at no charge to SOCAR 5% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter; and

2. commencing on the first anniversary of the Effective Date, start delivering at no charge to SOCAR 15% of the total production of petroleum produced from the contract rehabilitation area in each calendar quarter,

until the amount delivered is the equivalent of 45,000 tons of "compensatory" crude oil to SOCAR ("**Compensatory Petroleum**").

The balance of production remaining after (i) the relevant Compensatory Petroleum has been delivered and (ii) quantities to enable recovery of certain operating and capital costs are deducted, is calculated on a quarterly basis and is shared between SOCAR and the Contractor Parties according to a detailed "R factor" model.

The REDPSA is further described in paragraph 1.3 of Part 10: "*Information on the Group*" of this Document.

25.6 **USD $ 2,050,000 Loan from Jiu Feng Investment Hong Kong Limited**

The USD $2,050,000 loan from Jiu Feng Investment Hong Kong Limited is described in paragraph 5.1 of Part 18: "*Additional Information*" of this Document.

25.7 **£20,000,000 Loan Facility with Darwin Strategic Limited (acting on behalf of Darwin Capital Limited)**

The £20,000,000 loan facility with Darwin Strategic Limited (acting on behalf of Darwin Capital Limited) is described in paragraph 5.2 of Part 18: "*Additional Information*" of this Document.

25.8 **EUR 401,148.10 Loan from Eneco Trade S.r.l. (relating to the acquisition of a co-generation plant in Italy)**

The EUR 401,148.10 loan from Eneco Trade S.r.l. (relating to the acquisition of a co-generation plant in Italy) is described in paragraph 5.3 of Part 18: "*Additional Information*" of this Document.

25.9 **EUR 220,000 Loan from GBM Banca S.p.A**

The EUR 220,000 loan from GBM Banca S.p.A is described in paragraph 5.4 of Part 18: "*Additional Information*" of this Document.

25.10 **EUR 200,000 Loan from Banca Credito Valtellinese S.C.**

The EUR 200,000 loan from Banca Credito Valtellinese S.C. is described in paragraph 5.5 of Part 18: "*Additional Information*" of this Document.

25.11 **USD $320,000 General Line of Credit Agreement**

The First Credit Agreement is described in paragraph 5.6 of Part 18: "*Additional Information*" of this Document.

25.12 **USD $200,000 General Line of Credit Agreement**

The Second Credit Agreement is described in paragraph 5.7 of Part 18: "*Additional Information*" of this Document.

25.13 **USD $55,000 General Line of Credit Agreement**

The Third Credit Agreement is described in paragraph 5.8 of Part 18: "*Additional Information*" of this Document.

25.14 **Second USD $55,000 General Line of Credit Agreement**

The Fourth Credit Agreement is described in paragraph 5.9 of Part 18: "*Additional Information*" of this Document.

25.15 **USD 154,000 Loan with Arpenta Sociedad de Bolsa S.A.**

The Arpenta Bond Loan is described in paragraph 5.10 of Part 18: "*Additional Information*" of this Document.

26 Related party transactions

Details of related party transactions entered into by the Company or members of the Group during the period covered by the historic financial information are set out in note 25 of the consolidated financial statements of the Company for the years ended 31 March 2014, 2015 and 2016 and in note 15 to the unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 September 2016 and comparative period (30 September 2015), both of which are contained in Part 16: "*Historical Financial Information*" of this Document.

In addition, on 7 July 2016, the Company entered into the Consultancy Agreement with Spinnaker. See paragraph 25.4 of this Part 18: "*Additional Information*" for further details on the Consultancy Agreement.

Save as set out above, and for the related party transactions set out in note 25 of the consolidated financial statements of the Company for the years ended 31 March 2014, 2015 and 2016 and in note 15 to the unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 September 2016 and comparative period (30 September 2015), there are no related party transactions that were entered into (and still subsist) during the period covered by the consolidated historical financial information and during the period from 1 July 2016 to the date of this Document.

27 Remuneration and benefits – named executive officers

The following table summarises annual compensation and long-term compensation of the Company's "Named Executive Officers" (as defined by Form 51-102F6) for the three most recently completed financial years that ended on 31 March 2016. All the amounts are expressed in thousand Canadian dollars:

Name and principal position	Year[2]	Salary (CAD $'000)	Share-based awards (CAD $'000)	Option-based awards (CAD $'000)	Pension value (CAD $'000)	All other Compensation (CAD $'000)	Total Compensation (CAD $'000)
Andrea Cattaneo[1],	2014	124	Nil	Nil	Nil	153[3]	277
President and Chief	2015	180	Nil	Nil	Nil	200[3]	380
Executive Officer	2016	303	Nil	Nil	Nil	Nil	303
Luigi Regis Milano[4],	2014	13	Nil	Nil	Nil	Nil	13
Director and Former	2015	55	Nil	Nil	Nil	Nil	55
Chief Financial Officer	2016	59	Nil	Nil	Nil	Nil	59
Jose Ramon Lopez-Portillo	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Dario Sodero[7]	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Erik Larre	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Francesco Salimbeni	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Nilesh Jagatia[5]	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

1. Andrea Cattaneo was appointed President and Chief Executive Officer effective 01 January 2009. As proposed by the Compensation Committee, Mr. Cattaneo's annual consulting fee payment is approximately CAD $200,000, payable in equal monthly instalments, plus benefits for the year ended 31 March 2015.
2. Financial years ended 31 March.
3. Bonus paid to CEO approved by the Board of Directors.
4. Luigi Regis Milano served as Chief Financial Officer from 28 November 2012 to 7 March 2016.
5. Nilesh Jagatia served as Chief Financial Officer from 7 March 2016 to 6 October 2016.
6. An agreement is currently in place between the Company and Spinnaker Management Resources Ltd, a company controlled by Mr. Morrison, for the procurement of the consultancy services of Mr. Morrison. A fee of £2,000 per month is payable to Spinnaker under the agreement.
7. In the year ending 31 March 2016, Mr. Sodero received a fee for professional consulting services of approximately CAD$19,000.

28 Accounts

The Company's annual report and accounts will be made up to 31 March in each year. It is expected that the Company will make public its annual report and accounts within 90 days of each financial year end and within 45 days of each quarter (or earlier if possible) and that copies of the annual report and accounts will be sent to Shareholders within six months of each financial year end (or earlier if possible).

29 Issues of new Common Shares

The Directors are authorised to issue an unlimited number of Common Shares. There are no statutory pre-emption rights.

30 Consents

30.1 PKF Littlejohn LLP has given and has not withdrawn its written consent to the inclusion in this Document of its reports set out in Part 13: "*Selected Financial Information – Part B*" and Part 16: "*Historical Financial Information*" in the form and context in which they are included and has authorised the contents of those parts of this Document which comprise its reports for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

30.2 Chapman Petroleum, in its capacity as Competent Person, has given and has not withdrawn its written consent to the inclusion in this Document of its Competent Person's Report in the Appendix to this Document and references to it in the form and context in which they are included and has authorised the contents of those parts of this Document which comprise its report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

30.3 Optiva Securities Limited has given and not withdrawn its written consent to the inclusion in this Document of its name in the form and context in which it is included.

30.4 Thomson Reuters (Professional) UK Limited (trading as Practical Law) has given and not withdrawn its written consent to the extraction of information from its publications:

(a) *Energy and Natural Resources Multi-Jurisdictional Guide 2014 (Oil and gas regulation in Argentina: overview)*; and

(b) *Energy and Natural Resources Global Guide 2015 (Oil and gas regulation in Azerbaijan: overview)*,

as reproduced in Sections 1 and 3 of Part 9: "*Argentina, Italy and Azerbaijan*" respectively.

31 General

31.1 The total expenses incurred (or to be incurred) by the Company in connection with Admission and the Placing are approximately £316,628. Assuming £2,332,550 is raised on closing of the Placing, the estimated Net Proceeds, after deducting fees and expenses in connection with the Placing, are approximately £2,015,922.

31.2 No material changes have occurred since the effective date of the Competent Person's Report the omission of which would make the Competent Person's Report misleading.

32 Documents available for inspection

Copies of the following documents will be available for inspection in physical form during usual business hours on any day (except Saturdays, Sundays and public holidays) at the offices of Dechert LLP, 160 Queen Victoria Street, London EC4V 4QQ for a period of 12 months following Admission:

(i) the Articles;

(ii) the historical financial information of the Group in respect of the years ended 31 March 2014, 2015 and 2016, together with the related accountant's report from PKF Littlejohn LLP, which is set out in Part 16: "*Historical Financial Information*" of this Document;

(iii) the accountant's report from PKF Littlejohn LLP on the unaudited pro forma financial information, which is set out in Part 13, Part B: "*Selected Financial Information – Selected key pro forma financial information"* of this Document;

(iv) the CPR;

(v) the consent letters referred to in paragraph 30 of this Part 18; and

(vi) this Document.

In addition, for the purposes of Rule 3.2.4R(3) of the Prospectus Rules, this Document will be published in electronic form and be available on the Company's website at www.zenithenergy.ca subject to certain access restrictions applicable to persons located or resident outside the United Kingdom.

The date of this Document is 5 January 2017.

PART 19

NOTICES TO INVESTORS

The distribution of this Document and the Placing may be restricted by law in certain jurisdictions and therefore persons into whose possession this Document comes should inform themselves about and observe any restrictions, including those set out below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

1 General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Common Shares, or possession or distribution of this Document or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Common Shares may not be offered or sold, directly or indirectly, and neither this Document nor any other offering material or advertisement in connection with the Common Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Document does not constitute an offer to subscribe for any of the Common Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Document has been approved by the FCA as a prospectus for the purposes of section 85 of FSMA, and of the Prospectus Directive. No arrangement has been made with the competent authority in any other EEA State (or any other jurisdiction) for the use of this Document as an approved prospectus in such jurisdiction and accordingly no public offer is to be made in any EEA state (or in any other jurisdiction). Issue or circulation of this Document may be prohibited in countries other than those in relation to which notices are given below.

2 For the attention of Canadian Investors

The Placing Shares may be subject to resale restrictions imposed by, and subscribers for Placing Shares may not be able to resell such Placing Shares except in accordance with, applicable Canadian securities law and subscribers for Placing Shares have undertaken that (i) they will not offer, sell or deliver, directly or indirectly, any of the Placing Shares in Canada or to or for the benefit of any person resident in Canada until the expiry of any relevant hold period under applicable Canadian securities laws of four months and one day from Admission; and (ii) they will notify any transferee of Placing Shares of the applicable resale restrictions.

Under Canadian securities law, subject to certain exceptions, securities which are not distributed under a Canadian prospectus are subject to a restricted period in Canada of four months and one day. The Common Shares to be issued outside of Canada pursuant to the Placing will not be distributed under a Canadian prospectus and will be subject to a four month and a day restricted period in Canada (beginning on the date the Common Shares are issued by the Company) which will prevent such Common Shares from being resold in Canada during the restricted period without a Canadian prospectus or an exemption from the Canadian prospectus requirement.

3 For the attention of European Economic Area Investors

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), an offer to the public of the Common Shares may only be made once the prospectus has been passported in such Relevant Member State in accordance with the Prospectus Directive as implemented by such Relevant Member State. For the other Relevant Member States an offer to the public in that Relevant Member State of any Common Shares may only be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined under the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in such Relevant Member State subject to obtaining prior consent of the Company for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Common Shares shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any offer of Common Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Common Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Common Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and any amendments, thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

During the period up to but excluding the date on which the Prospectus Directive is implemented in member states of the EEA, this Document may not be used for, or in connection with, and does not constitute, any offer of Common Shares or an invitation to purchase or subscribe for any Common Shares in any member state of the EEA in which such offer or invitation would be unlawful.

The distribution of this Document in other jurisdictions may be restricted by law and therefore persons into whose possession this Document comes should inform themselves about and observe any such restrictions.

4 For the attention of UK Investors

This Document comprises a prospectus relating to the Company prepared in accordance with the Prospectus Rules and approved by the FCA under section 87A of FSMA. This Document has been filed with the FCA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

In the United Kingdom this Document is for distribution to, and is directed only at, legal entities which are qualified investors as defined under the Prospectus Directive and are (i) persons having professional experience in matters relating to investments who fall within the definition of investment professionals in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); or (ii) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Order; or (iii) persons to whom it may otherwise be lawfully distributed under the Order, (all such persons together being "**Relevant Persons**"). In the United Kingdom, any investment or investment activity to which this Document relates is only available to and will only be engaged in with Relevant Persons. Persons who are not Relevant Persons should not act or rely on this Document or any of its contents.

PART 20

CREST AND DEPOSITARY INTERESTS

1 CREST and Depositary Arrangements

The Company has established arrangements to enable investors to settle interests in the Common Shares through the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK companies, such as the Company, cannot be held or transferred electronically in the CREST system. However, depositary interests allow such securities to be dematerialised and settled electronically through CREST. Where investors choose to settle interests in the Common Shares through the CREST system, and pursuant to depositary arrangements established by the Company, Computershare Investor Services plc (the "**Depositary**") will hold the Common Shares and issue dematerialised depositary interests (the "**Depositary Interests**") representing the underlying Common Shares, which will be held on trust for the holders of the Depositary Interests. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system. Investors should note that it is the Depositary Interests which will be admitted to and settled through CREST and not the Common Shares.

The Depositary will issue the dematerialised Depositary Interests. The Depositary Interests will be independent securities constituted under English law which may be held and transferred through the CREST system.

The Depositary Interests will be created pursuant to and issued on the terms of a deed poll dated 29 November 2016 and executed by the Depositary in favour of the holders of the Depositary Interests from time to time (the "**Deed Poll**"). Prospective holders of Depositary Interests should note that they will have no rights against CRESTCo or its subsidiaries in respect of the underlying Common Shares or the Depositary Interests representing them.

The Common Shares will be transferred to the Custodian and the Depositary will issue Depositary Interests to participating members and provide the necessary custodial services.

In relation to those Common Shares held by Shareholders in uncertificated form, although the Company's register shows the Custodian as the legal holder of the Common Shares, the beneficial interest in the Common Shares remains with the holder of Depositary Interests, who has the benefit of all the rights attaching to the Common Shares as if the holder of Depositary Interests were named on the certificated Common Share register itself.

Each Depositary Interest will be represented as one Common Share, for the purposes of determining, for example, in the case of Common Shares, eligibility for any dividends. The Depositary Interests will have the same ISIN number as the underlying Common Shares and will not require a separate listing on the Official List. The Depositary Interests can then be traded and settlement will be within the CREST system in the same way as any other CREST securities.

Application has been made for the Depositary Interests to be admitted to CREST with effect from Admission.

2 Deed Poll

In summary, the Deed Poll contains provisions to the following effect, which are binding on holders of Depositary Interests:

Holders of Depositary Interests warrant, inter alia, that Common Shares held by the Depositary or the Custodian (on behalf of the Depositary) are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's constitutional documents or any contractual obligation, law or regulation. Each holder of Depositary Interests indemnifies the Depositary for any losses the Depositary incurs as a result of a breach of this warranty.

The Depositary and any Custodian must pass on to holders of Depositary Interests and, so far as they are reasonably able, exercise on behalf of holders of Depositary Interests all rights and entitlements received or to which they are entitled in respect of the underlying Common Shares which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received together with amendments and additional documentation necessary to effect such passing-on, or, as the case may be, exercised in accordance with the Deed Poll.

The Depositary will be entitled to cancel Depositary Interests and withdraw the underlying Common Shares in certain circumstances including where a holder of Depositary Interests has failed to perform any obligation under the Deed Poll or any other agreement or instrument with respect to the Depositary Interests.

The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any holder of Depositary Interests or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud. Furthermore, except in the case of personal injury or death, the Depositary's liability to a holder of Depositary Interests will be limited to the lesser of:

(a) the value of the Common Shares and other deposited property properly attributable to the Depositary Interests to which the liability relates; and

(b) that proportion of £5 million which corresponds to the proportion which the amount the Depositary would otherwise be liable to pay to the holder of Depositary Interests bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission or event which gave rise to such liability or, if there are no such amounts, £5 million.

The Depositary is not liable for any losses attributable to or resulting from the Company's negligence or wilful default or fraud or that of the CREST operator.

The Depositary is entitled to charge holders of Depositary Interests fees and expenses for the provision of its services under the Deed Poll.

Each holder of Depositary Interests is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the property held for the account of Depositary Interests held by that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian or any agent, if such Custodian or agent is a member of the Depositary's group, or, if not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.

The Depositary may terminate the Deed Poll by giving not less than 30 days' prior notice. During such notice period, holders may cancel their Depositary Interests and withdraw their deposited property and, if any Depositary Interests remain outstanding after termination, the Depositary must as soon as reasonably practicable, among other things, deliver the deposited property in respect of the Depositary Interests to the relevant holder of Depositary Interests or, at its discretion sell all or part of such deposited property. It shall, as soon as reasonably practicable deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll pro rata to holders of Depositary Interests in respect of their Depositary Interests.

The Depositary or the Custodian may require from any holder, or former or prospective holder, information as to the capacity in which Depositary Interests are owned or held and the identity of any other person with any interest of any kind in such Depositary Interests or the underlying Common Shares and holders are bound to provide such information requested. Furthermore, to the extent that the Company's constitutional documents require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of, or interests of any kind whatsoever, in the Common Shares, the holders of Depositary Interests are to comply with such provisions and with the Company's instructions with respect thereto.

It should also be noted that holders of Depositary Interests may not have the opportunity to exercise all of the rights and entitlements available to holders of Common Shares in the Company, including, for example, in the case of Shareholders, the ability to vote on a show of hands. In relation to voting, it will be important for holders of Depositary Interests to give prompt instructions to the Depositary or its nominated Custodian, in accordance with any voting arrangements made available to them, to vote the underlying Common Shares on their behalf or, to the extent possible, to take advantage of any arrangements enabling holders of Depositary Interests to vote such Common Shares as a proxy of the Depositary or its nominated Custodian.

A copy of the Deed Poll can be obtained on request in writing to the Depositary.

3 Depositary Agreement

The Depositary Agreement between the Company and the Depositary under which the Company appoints the Depositary to constitute and issue from time to time, upon the terms of the Deed Poll, a series of Depositary Interests representing securities issued by the Company and to provide certain other services in connection with such Depositary Interests with a view to facilitating the indirect holding by participants in CREST. The Depository agrees that it will comply with the terms of the Deed Poll and that it will perform its obligations with reasonable care and skill. The Depository assumes certain specific obligations, including the obligation to issue to a CREST member Depositary Interests in uncertificated form and to maintain the register of Depositary Interests. The Depository undertakes to provide the depositary services in compliance with the requirements of the Financial Services and Markets Act 2000. Computershare will either itself or through its appointed Custodian as bare trustee hold the deposited property (which includes, *inter alia*, the securities represented by the Depositary Interests) as may be designated from time to time by the Depositary. The Company agrees to provide such assistance, information and documentation to the Depository as is reasonably required by the Depository for the purposes of performing its duties, responsibilities and obligations under the Deed Poll and the Depositary Agreement, including (to the extent available to the Company) information, which concerns or relates to the Depository's obligations under the Depositary Agreement. The agreement sets out the procedures to be followed where the Company is to pay or make a dividend or other distribution. The Company is to indemnify Depository for any loss it may suffer as a result of the performance of the Depositary Agreement except to the extent that any losses result from the Depository's own negligence, fraud or wilful default. The Depository is to indemnify the Company for any loss the Company may suffer as a result of or in connection with the Depository's fraud, negligence or wilful default save that the aggregate liability of the Depositary to the Company over any 12 month period shall in no circumstances whatsoever exceed twice the amount of the fees payable to the Depositary in any 12 month period in respect of a single claim or in the aggregate. Subject to earlier termination, the Depositary is appointed for a fixed term of one year and thereafter until terminated by either party giving not less than six months' notice. In the event of termination, the parties agree to phase out the Depositary's operations in an efficient manner without adverse effect on the members of the Company and the Depositary shall deliver to the Company (or as it may direct) all documents, papers and other records relating to the Depositary Interests which are in its possession and which is the property of the Company. The Company is to pay certain fees and charges, including a an annual fee, a fee based on the number of Depositary Interests per year and certain CREST related fees. Computershare is also entitled to recover reasonable out of pocket fees and expenses.

PART 21

DEFINITIONS

The following definitions apply throughout this Document unless the context requires otherwise:

"Admission"	means admission of the Common Shares to the standard segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange;
"Articles"	means the Notice of Articles and Articles of the Company in force from time to time;
"Business Corporations Act (British Columbia)"	means the Business Corporations Act (British Columbia), SBC 2002, c 57;
"Business Day"	means a day (other than a Saturday or a Sunday) on which banks are open for business in London and British Columbia;
"certificated" or "in certificated form"	means in relation to a share, warrant or other security, a share, warrant or other security, title to which is recorded in the relevant register of the share, warrant or other security concerned as being held in certificated form (that is, not in CREST);
"Chairman"	means the Chairman of the Board from time to time, as the context requires;
"Chapman Petroleum" or the "Competent Person"	means Chapman Petroleum Engineering Ltd;
"City Code"	means the City Code on Takeovers and Mergers;
"Common Shares"	means the common shares of no par value in the capital of the Company including, if the context requires, the Placing Shares and the Manager Shares;
"Company" or "Zenith"	means Zenith Energy Ltd., a corporation incorporated in British Columbia under the British Corporations Act (British Columbia) on 20 September 2007, with number BC0803216;
"Convertible Loan Notes"	means the CHF Swiss Francs unsecured convertible loan notes and the GBP unsecured convertible loan notes held by the Company;
"CPR" or "Competent Person's Report"	means the Competent Person's Report prepared by Chapman Petroleum and included with this Document at the Appendix;
"CREST" or "CREST System"	means the paperless settlement system operated by Euroclear enabling securities to be evidenced otherwise than by certificates and transferred otherwise than by written instruments;
"CREST Manual"	means the compendium of documents entitled "CREST Manual" issued by Euroclear from time to time and comprising the CREST Reference Manual, the CREST Central Counterparty Service Manual, the CREST International Manual, the CREST Rules, the CSS Operations Manual and the CREST Glossary of Terms;
"CREST Regulations"	means The Uncertified Securities Regulations 2001 (SI 2001 No. 3755), as amended;

“CREST Requirements”	means the rules and requirements of Euroclear as may be applicable to issuers from time to time, including those specified in the CREST Manual;
“CRESTCo”	means CRESTCo Limited, the operator (as defined in the Uncertificated Regulations) of CREST;
“Custodian”	means the custodian nominated by the Depositary;
“Deed Poll”	means the Deed Poll as defined on page 204;
“Depositary”	means Computershare Investor Services plc;
“Depositary Agreement”	means the Depositary Agreement as defined on page 195;
“Depositary Interests”	means the dematerialised depositary interests (denominated in Pounds Sterling) in respect of the Shares issued or to be issued by the Depositary;
“Directors” or “Board” or “Board of Directors”	means the board of directors of the Company as at the date of this Document, whose names are set out on page 45 of this Document, or the board of directors from time to time of the Company, as the context requires, and “**Director**” is to be construed accordingly;
“Directors’ Letters of Appointment”	means the letters of appointment for each of the Directors, details of which are set out in Part 18: “*Additional Information*”;
“Disclosure Guidance and Transparency Rules”	means the disclosure guidance and transparency rules sourcebook of the FCA made pursuant to section 73A of FSMA as amended from time to time;
“Document” or “this Document” or “Prospectus” or “this Prospectus”	means this document comprising a prospectus relating to the Company prepared in accordance with the Prospectus Rules made under section 73A of FSMA and approved by the FCA under section 87A of FSMA;
“EEA”	means the European Economic Area;
“EEA States”	means the member states of the European Union and the European Economic Area, each an “EEA State”;
“Enlarged Common Shares in Issue”	means 98,564,867 Common Shares, being the Existing Shares, the Placing Shares and the Manager Shares;
“EU”	means the Member States of the European Union;
“Euroclear”	means Euroclear UK & Ireland Limited;
“Exchange Act”	means the US Securities Exchange Act of 1934, as amended;
“Existing Shares”	means the existing Common Shares in issue prior to the Placing and the issue of the Manager Shares, and as at the date of this Document;
“FCA”	means the UK Financial Conduct Authority;
“FSMA”	means the Financial Services and Markets Act 2000 of the UK, as amended;
“general meeting”	means a meeting of the Shareholders of the Company;
“Group”	the Company and the Subsidiaries;
“IFRS”	means International Financial Reporting Standards as adopted by the European Union;

"Independent Directors"	means those Directors of the Board considered by the Board to be independent for the purposes of any appropriate corporate governance regime complied with by the Company from time to time;
"Listing Rules"	means the listing rules of the FCA made pursuant to section 73A of FSMA as amended from time to time;
"London Stock Exchange"	means London Stock Exchange plc;
"Manager Shares"	the 668,571 Common Shares to be issued to the Senior Manager on Admission, further details of which are set out in paragraph 4.2(c) of Part 11: "*Directors, Senior Management and Corporate Governance*";
"Net Proceeds"	means the funds received on closing of the Placing less any expenses paid or payable in connection with Admission and the Placing;
"Official List"	means the official list maintained by the FCA;
"Options"	means the stock options over Common Shares granted pursuant to the Stock Option Plan;
"Placing"	means the proposed Placing of the Placing Shares: (i) by the Company; and (ii) on behalf of the Company (in respect of 18,571,429 Common Shares placed by Optiva Securities Limited), in each case at the Placing Price and on the terms and subject to the conditions set out in this Document;
"Placing Price"	means £0.07 per new Common Share;
"Placing Shares"	the 33,322,143 new Common Shares to be issued pursuant to the placing;
"Pounds Sterling" or "£"	means British pounds sterling, the lawful currency of the UK;
"Premium Listing"	means a listing on the Premium Listing Segment of the Official List under Chapter 6 of the Listing Rules;
"Proposed Director"	means the proposed director of the Company whose name is set out on page 45 of this Document;
"Prospectus Directive"	means Directive 2003/71/EC (and any amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant member state), and includes any relevant implementing measures in each EEA State that has implemented Directive 2003/71/EC;
"Prospectus Rules"	means the prospectus rules of the FCA made pursuant to section 73A of FSMA, as amended from time to time;
"REDPSA"	means the Rehabilitation, Exploration, Development and Production Sharing Agreement entered into on 16 March 2016 between SOCAR, Zenith Aran and SOA, as described in paragraph 1.3 of Part 10: "*Information on the Group*" and paragraph 25.5 of Part 18: "*Additional Information*";
"Registrar"	means Computershare Trust Company of Canada or any other registrar appointed by the Company from time to time;
"Registrar Agreement"	means the transfer agency and registrarship agreement dated 5 March 2008 between the Company and Olympia Trust Company, and in which Olympia Trust Company's right, title and

	interest were assigned and transferred to the Registrar in 2014, further details of which are set out in Part 18: "*Additional Information*";
"Regulatory Information Service"	means a regulatory information service authorised by the UK Listing Authority to receive, process and disseminate regulatory information in respect of listed companies;
"SEC"	means the US Securities and Exchange Commission;
"Securities Act"	means the US Securities Act of 1933, as amended;
"Senior Manager"	means the senior manager of the Company whose name is set out in Part 11: "*Directors, Senior Management and Corporate Governance*" under the heading "Senior Management";
"Shareholders"	means the holders of the Common Shares and/or Placing Shares, as the context requires;
"SOA"	SOCAR Oil Affiliate, a company incorporated under the laws of Azerbaijan;
"SOCAR"	the State Oil Company of Azerbaijan Republic;
"Standard Listing"	means a listing on the Standard Listing Segment of the Official List under Chapter 14 of the Listing Rules;
"Stock Option Plan"	the Company's shareholder approved stock option plan, further details of which are set out in paragraph 7 of Part 18: "*Additional Information*" of this Document;
"Subsidiary"	as defined in section 2(2) of the Business Corporations Act (British Columbia);
"Takeover Panel"	means the UK Panel on Takeovers and Mergers;
"Trading Day"	means a day on which the main market of the London Stock Exchange (or such other applicable securities exchange or quotation system on which the Shares are listed) is open for business (other than a day on which the main market of the London Stock Exchange (or such other applicable securities exchange or quotation system) is scheduled to or does close prior to its regular weekday closing time);
"TSXV"	means the TSX Venture Exchange;
"UK Listing Authority"	means the FCA in its capacity as the competent authority for listing in the UK pursuant to Part VI of FSMA;
"uncertificated" or "uncertificated form"	means, in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in uncertificated form (that is, in CREST) and title to which may be transferred by using CREST;
"United Kingdom" or "UK"	means the United Kingdom of Great Britain and Northern Ireland;
"United States" or "US"	has the meaning given to the term "United States" in Regulation S;
"VAT"	means (i) within the EU, any tax imposed by any Member State in conformity with the Directive of the Council of the European Union on the common system of value added tax (2006/112/EC),

	and (ii) outside the EU, any tax corresponding to, or substantially similar to, the common system of value added tax referred to in paragraph (i) of this definition;
"Warrants"	means the 46,881,622 warrants granted between April 2014 and November 2016 to subscribe for Common Shares, as more particularly described in paragraph 4 of Part 18: "*Additional Information*" of this Document; and
"Zenith Aran"	Zenith Aran Oil Company Limited (the Company's wholly- owned subsidiary), a company incorporated under the laws of the British Virgin Islands.

References to a "company" in this Document shall be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established.

PART 22

GLOSSARY OF TECHNICAL TERMS

The following technical definitions apply throughout this Document unless the context requires otherwise:

Reserves

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on:

(a) analysis of drilling, geological, geophysical and engineering data;

(b) the use of established technology;

(c) specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Each of the reserves categories (proved, probable and possible) may be divided into developed and undeveloped categories:

(a) Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production but are shut-in and the date of resumption of production is unknown.

(b) Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves category (proved, probable, possible) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities, and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to "individual reserves entities", which refers to the lowest level at which reserves calculations are performed, and to "reported reserves", which refers to the highest level sum of individual entity estimates for which reserves estimates are presented. Reported reserves should target the following levels of certainty under a specific set of economic conditions:

(a) at least a 90% probability that the quantities actually recovered will equal or exceed the estimated proved reserves;

(b) at least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves; and

(c) at least a 10% probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates are prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

General

"BIT"	Before Income Tax;
"AIT"	After Income Tax;
"M$"	Thousands of Dollars;
"Effective Date"	The date for which the Present Value of the future cash flows and reserve categories are established;
"$US"	United States Dollars;
"BRENT"	North Sea Oil – the common reference for crude oil used for oil price comparisons outside North America;
"WTI"	West Texas Intermediate – the common reference for crude oil used for oil price comparisons in North America;

Technical Data

"psia"	Pounds per square inch absolute;
"MSTB"	Thousands of Stock Tank Barrels of oil (oil volume at 60 F and 14.65 psia);
"MMscf"	Millions of standard cubic feet of gas (gas volume at 60 F and 14.65 psia);
"Bbls"	Barrels;
"Mbbls"	Thousands of barrels;
"MMBTU"	Millions of British Thermal Units — heating value of natural gas;
"STB/d"	Stock Tank Barrels of oil per day — oil production rate;
"Mscf/d"	Thousands of standard cubic feet of gas per day — gas production rate;
"GOR (scf/STB)"	Gas-Oil Ratio (standard cubic feet of solution gas per stock tank barrel of oil);

“mKB”	Metres Kelly Bushing — depth of well in relation to the Kelly Bushing which is located on the floor of the drilling rig. The Kelly Bushing is the usual reference for all depth measurements during drilling operations;
“EOR”	Enhanced Oil Recovery;
“GJ”	Gigajoules;
“Marketable or Sales Natural Gas”	Natural gas that meets specifications for its sale, whether it occurs naturally or results from the processing of raw natural gas. Field and plant fuel and losses to the point of the sale must be excluded from the marketable quantity. The heating value of marketable natural gas may vary considerably, depending on its composition; therefore, quantities are usually expressed not only in volumes but also in terms of energy content. Reserves are always reported as marketable quantities;
“NGLs”	Natural Gas Liquids – Those hydrocarbon components that can be recovered from natural gas as liquids, including but not limited to ethane, propane, butanes, pentanes plus, condensate, and small quantities of non-hydrocarbons;
“Raw Gas”	Natural gas as it is produced from the reservoir prior to processing. It is gaseous at the conditions under which its Volume is measured or estimated and may include varying amounts of heavier hydrocarbons (that may liquefy at atmospheric conditions) and water vapour; may also contain sulphur and other non-hydrocarbon compounds. Raw natural gas is generally not suitable for end use; and
“EUR”	Estimated Ultimate Recovery.

APPENDIX

COMPETENT

PERSON’S REPORT

COMPETENT PERSONS REPORT

RESERVE AND ECONOMIC EVALUATION OIL AND GAS PROPERTIES

ARGENTINA, AZERBAIJAN AND ITALY

Prepared for

ZENITH ENERGY LTD.

August 31, 2016
(September 1, 2016)

Chapman Petroleum Engineering Ltd.
1122 - 4th Street S.W., Suite 700, Calgary, Alberta T2R 1M1 • Phone: (403) 266-4141 • Fax: (403) 266-4259 • www.chapeng.ab.ca

January 5, 2017

Zenith Energy Ltd.
Suite 1500, 15th Floor Bankers Court
850 - 2nd Street SW
Calgary AB Canada T2P 0R8

Attention: Mr. Andrea Cattaneo

Dear Sir:

Re: Competent Persons Report, Reserve and Economic Evaluation – Zenith Energy Ltd. Argentina, Azerbaijan and Italy – August 31, 2016

In accordance with your authorization we have prepared a Competent Person's Report evaluating oil and gas properties located in Argentina, Azerbaijan and Italy, owned by Zenith Energy Ltd. (the "Company") for an effective date of August 31, 2016 (September 1, 2016).

This evaluation has been carried out in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook ("COGEH"), the professional practice standard under our Permit to Practice with APEGA and under the guidelines of the European Securities and Markets Authority (ESMA). The report has been prepared and/or supervised by a "Qualified Reserves Evaluator" under NI 51-101 as demonstrated on the accompanying Certificate of Qualification of the author(s).

The INTRODUCTION contains the authorization and purpose of the report and describes the methodology and economic parameters used in the preparation of this report.

The EXECUTIVE SUMMARY contains a concise presentation of the property characteristics and results of the reserve and economic evaluation for each property.

The SUMMARY OF RESERVES AND ECONOMICS presents the Company gross and net reserve and economic results of each property, in summary form. The net present values presented in this report do not necessarily represent the fair market value of the reserves evaluated in this report. All monetary values presented in this report are expressed in terms of US dollars.

The DISCUSSION contains a description of the interests and burdens, reserves and geology, production forecasts, product prices, capital and operating costs and a map of each property. The economic results and cash flow forecasts (before income tax) are also presented on an entity and property summary level.

In preparation of this report, reliance has been placed upon information provided by the Company with respect to the property interests to be evaluated, production from such properties, current costs of operation and development, current prices for production, agreements relating to the current and future operations, sales of production, concession expiration dates, and additional data that were accepted as presented. Although we have not conducted an independent verification, the information used in this report appears reasonable and the Company has confirmed in writing that to the best of their knowledge all the information they provided for our use in the preparation of the report was complete and accurate as of the effective date.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be significant. We have no responsibility to update our report for events and circumstances which may have occurred since the preparation date of this report.

Prior to public disclosure of any information contained in this report, or our name as author, our written consent must be obtained, as to the information being disclosed and the manner in which it is presented. This report may not be reproduced, distributed or made available for use by any other party without our written consent and may not be reproduced for distribution at any time without the complete context of the report, unless otherwise reviewed and approved by us.

We consent to the submission of this report, in its entirety, to securities regulatory agencies and stock exchanges, by the Company.

It has been a pleasure to prepare this report and the opportunity to have been of service is appreciated.

Yours very truly,
Chapman Petroleum Engineering Ltd.

[Original Signed By:]

C. W. Chapman

C. W. Chapman, P. Eng.,
President

[Original Signed By:]

Charles G.K. Moore

Charles G.K. Moore, P.Eng.,
Associate

PERMIT TO PRACTICE
CHAPMAN PETROLEUM ENGINEERING LTD.
[Original Signed By:]
Signature *C.W. Chapman*

Date *January 5, 2017*

PERMIT NUMBER: P 4201
The Association of Professional Engineers and Geoscientists of Alberta

cgm/lml/6264
attachments

CERTIFICATE OF QUALIFICATION

I, C. W. CHAPMAN, P. Eng., Professional Engineer of the City of Calgary, Alberta, Canada, officing at Suite 700, 1122 – 4th Street S.W., hereby certify:

1. THAT I am a registered Professional Engineer in the Province of Alberta and a member of the Australasian Institute of Mining and Metallurgy.

2. THAT I graduated from the University of Alberta with a Bachelor of Science degree in Mechanical Engineering in 1971.

3. THAT I have been employed in the petroleum industry since graduation by various companies and have been directly involved in reservoir engineering, petrophysics, operations, and evaluations during that time.

4. THAT I have in excess of 25 years in the conduct of evaluation and engineering studies relating to oil & gas fields in Canada and around the world.

5. THAT I participated directly in the evaluation of these assets and properties and preparation of this report for Zenith Energy Ltd., dated January 5, 2017 and the parameters and conditions employed in this evaluation were examined by me and adopted as representative and appropriate in establishing the value of these oil and gas properties according to the information available to date.

6. THAT I have not, nor do I expect to receive, any direct or indirect interest in the properties or securities of Zenith Energy Ltd., its participants or any affiliate thereof.

7. THAT I have not examined all of the documents pertaining to the ownership and agreements referred to in this report, or the chain of Title for the oil and gas properties discussed.

8. A personal field examination of these properties was conducted in September 2015 by Charles Moore, Senior Associate of Chapman Petroleum Engineering Ltd. His report is contained in Appendix A to the Discussion in this report.

[Original Signed By:]

C.W. Chapman

C.W. Chapman, P.Eng.
President

PERMIT TO PRACTICE
CHAPMAN PETROLEUM ENGINEERING LTD.
[Original Signed By:]
Signature *C.W. Chapman*
Date *January 5, 2017*
PERMIT NUMBER: P 4201
The Association of Professional Engineers and Geoscientists of Alberta

CERTIFICATE OF QUALIFICATION

I, CHARLES G.K. MOORE, P. Eng., Professional Engineer of the City of Calgary, Alberta, Canada, officing at Suite 700, 1122 – 4th Street S.W., hereby certify:

1. THAT I am a registered Professional Engineer in the Province of Alberta.

2. THAT I graduated from the Technical University of Nova Scotia with a Bachelor of Engineering degree in Mining Engineering in 1972.

3. THAT I have been employed in the petroleum industry since graduation by various companies and have been directly involved in reservoir engineering, petrophysics, operations, and evaluations during that time.

4. THAT I have in excess of 10 years of experience in the conduct of evaluation and engineering studies relating to oil and gas fields in Canada and internationally.

5. THAT I participated directly in the evaluation of these assets and properties and preparation of this report for Zenith Energy Ltd., dated January 5, 2017 and the parameters and conditions employed in this evaluation were examined by me and adopted as representative and appropriate in establishing the value of these oil and gas properties according to the information available to date.

6. THAT I have not, nor do I expect to receive, any direct or indirect interest in the properties or securities of Zenith Energy Ltd., its participants or any affiliate thereof.

7. THAT I have not examined all of the documents pertaining to the ownership and agreements referred to in this report, or the chain of Title for the oil and gas properties discussed.

8. I conducted a personal field examination of these properties in September 2015. A full report is contained in Appendix A to the Discussion in this report.

[Original Signed By:]

Charles G.K. Moore

Charles G.K. Moore, P.Eng.,
Associate

CERTIFICATE OF QUALIFICATION

I, D. J. BRIERE, P. Eng., Professional Engineer of the City of Calgary, Alberta, Canada, officing at Suite 700, 1122 – 4th Street S.W., hereby certify:

1. THAT I am a registered Professional Engineer in the Province of Alberta.

2. THAT I graduated from the University of Calgary with a Bachelor of Science degree in Electrical Engineering in 1978.

3. THAT I have been employed in the petroleum industry since graduation by various companies and have been directly involved in reservoir engineering, petrophysics, operations, and evaluations during that time.

4. THAT I have over 30 years of experience in engineering studies relating to oil & gas fields in Canada and around the world.

5. THAT I participated directly in the evaluation of these assets and properties and preparation of this report for Zenith Energy Ltd., dated January 5, 2017 and the parameters and conditions employed in this evaluation were examined by me and adopted as representative and appropriate in establishing the value of these oil and gas properties according to the information available to date.

6. THAT I have not, nor do I expect to receive, any direct or indirect interest in the properties or securities of Zenith Energy Ltd., its participants or any affiliate thereof.

7. THAT I have not examined all of the documents pertaining to the ownership and agreements referred to in this report, or the chain of Title for the oil and gas properties discussed.

8. A personal field examination of these properties was conducted in September 2015 by Charles Moore, Senior Associate of Chapman Petroleum Engineering Ltd. His report is contained in Appendix A to the Discussion in this report.

[Original Signed By:]

D.J. Brière

D.J. Brière, P.Eng.
General Manager International

CERTIFICATE OF QUALIFICATION

I, KONSTANTIN ZAITSEV, of the City of Calgary, Alberta, Canada, officing at Suite 700, 1122 – 4th Street S.W., hereby certify:

1. THAT I am a Certified Technician in the Province of Alberta.

2. THAT I graduated from the Kazak National Technical University, Kazakhstan, Almaty with a Bachelor of Science degree in Mechanical Engineering in 1996.

3. THAT I graduated from the South Alberta Institute of Technology, Calgary, Canada with a Bachelor of Applied Petroleum Engineering Technology degree in 2010.

4. THAT I participated directly in the evaluation of these assets and properties and preparation of this report for Zenith Energy Ltd., dated January 5, 2017 and the parameters and conditions employed in this evaluation were examined by me and adopted as representative and appropriate in establishing the value of these oil and gas properties according to the information available to date.

5. THAT I have not, nor do I expect to receive, any direct or indirect interest in the properties or securities of Zenith Energy Ltd., its participants or any affiliate thereof.

6. THAT I have not examined all of the documents pertaining to the ownership and agreements referred to in this report, or the chain of Title for the oil and gas properties discussed.

7. A personal field examination of these properties was considered to be unnecessary because the data available from the Company's records and public sources was satisfactory for our purposes.

[Original Signed By:]

Konstantin Zaitsev

Konstantin Zaitsev, C.Tech.
Oil and Gas Reserves Evaluator

CERTIFICATE OF QUALIFICATION

I, HAROLD J. RYAN, P. Geol., Professional Geologist of the City of Calgary, Alberta, Canada, officing at Suite 700, 1122 – 4th Street S.W., hereby certify:

1. THAT I am a registered Professional Geologist in the Province of Alberta, a Fellow of the Geological Association of Canada and a Fellow of the Geological Society of London.

2. THAT I graduated from the University of Calgary with a Bachelor of Science degree in Geology in 1983.

3. THAT I have been employed in the petroleum industry since graduation by various companies and have been directly involved in petroleum geology, petrophysics, operations, and evaluations during that time.

4. THAT I have in excess of 20 years of experience in the conduct of evaluation and geological studies relating to oil and gas fields in Canada and internationally.

5. THAT I participated directly in the evaluation of these assets and properties and preparation of this report for Zenith Energy Ltd., dated January 5, 2017 and the parameters and conditions employed in this evaluation were examined by me and adopted as representative and appropriate in establishing the value of these oil and gas properties according to the information available to date.

6. THAT I have not, nor do I expect to receive, any direct or indirect interest in the properties or securities of Zenith Energy Ltd., its participants or any affiliate thereof.

7. THAT I have not examined all of the documents pertaining to the ownership and agreements referred to in this report, or the chain of Title for the oil and gas properties discussed.

8. A personal field examination of these properties was conducted in September 2015 by Charles Moore, Senior Associate of Chapman Petroleum Engineering Ltd. His report is contained in Appendix A to the Discussion in this report.

[Original Signed By:]

Harold J. Ryan

Harold J. Ryan, P.Geol.
Manager Geoscience

COMPETENT PERSONS REPORT

RESERVE AND ECONOMIC EVALUATION
OIL AND GAS PROPERTIES

ARGENTINA, AZERBAIJAN
AND ITALY

Prepared for

ZENITH ENERGY LTD.

August 31, 2016
(September 1, 2016)

TABLE OF CONTENTS

INTRODUCTION

INDEX

INTRODUCTION

1. AUTHORIZATION

This evaluation has been authorized by Mr. Andrea Cattaneo, on behalf of Zenith Energy Ltd. The engineering analysis has been performed in September and October 2016.

2. PURPOSE OF THE REPORT

The purpose of this report was to prepare a third party independent appraisal of the oil and gas reserves owned by Zenith Energy Ltd.

The values in this report do not include the value of the Company's undeveloped land holdings nor the tangible value of their interest in associated plant and well site facilities they may acquire.

3. USE OF THE REPORT

The report is intended to support a new listing on the London Stock Exchange and for annual corporate requirements and financial planning.

4. SCOPE OF THE REPORT

4.1 Methodology

The evaluation of the reserves of these properties included in the report has been conducted under a discounted cash flow analysis of estimated future net revenue, which is the principal tool for estimating oil and gas property values and supporting capital investment decisions.

4.2 Land Survey System

Argentina

Argentina is a federation of 23 provinces, plus the Federal Capital District (Buenos Aires City).[1] The Republic of Argentina is located in the southern, western and maritime hemisphere. Its territory comprises a South American continental part, islands and a sector of Antarctica.

[1] Text taken from Country Report 2003, (Based on the PCGIAP-Cadastral Template 2003)

As Argentina is a Federal Country there is a Provincial Cadastral Organization in each province and in the Autonomous City of Buenos Aires.

The concept of Cadastre in Argentina can be considered equivalent to the definition given by (FIG, 1995)[2]:

> "A Cadastre is normally a parcel based, and up-to-date land information system containing a record of interests in land (e.g. rights, restrictions and responsibilities). It usually includes a geometric description of land parcels linked to other records describing the nature of the interests, the ownership or control of those interests, and often the value of the parcel and its improvements. It may be established for fiscal purposes (e.g. valuation and equitable taxation), legal purposes (conveyancing), to assist in the management of land and land use (e.g. for planning and other administrative purposes), and enables sustainable development and environmental protection. "

A 'Parcel' is the common registration unit for cadastres in Argentina.

Cadastral maps cover basically urban and rural areas. Urban maps have mainly geo-reference, administrative and parcel boundaries, buildings and complementary improvements. Rural maps are basically integrated by geo-reference, administrative and parcel boundaries and topographic data.

The agencies responsible for Land registration and for cadastral survey depend on provincial government. Cadastral organizations depend of different Ministries according the Province.

The Cadastral Federal Council is the body integrated by 24 members, corresponding to the cadastral organizations of all the (23) provinces and the Autonomous City of Buenos Aires.

[2] FIG was founded in 1878 in Paris and was known as the Fédération Internationale des Géomètres. This has become anglicized to the International Federation of Surveyors. It is a UN-recognized non-government organization (NGO), representing more than 120 countries throughout the world, and its aim is to ensure that the disciplines of surveying and all who practise them meet the needs of the markets and communities that they serve.

The registration of the real estate in Argentina began in the nineteenth century. In 1824 Buenos Aires elaborated the topographic map of the province, organized as a cadastral map and alphanumeric registry of real estate.

The Law 17.801, in 1973, sanctioned the National Law of Cadastre N° 20.440 that was incorporated into Civil Code.[3]

Italy

The Italian Cadastral Land Survey System establishes real property boundaries based on modern geodetics and historical land claims.

The complete unification of the country was done in 1870 when large parts of the Appennien Peninsula was covered by cadastral surveys, mainly carried out by Piedmont, the Kingdom of Naples and the Papal State (Frazzica et al., 2009).

In the first decades of the twentieth century, the Italian Institute of Military Geography (Istituto Geografico Militare; I.G.M) developed four independent geodetic networks. Today the Genova 1902 datum is more or less used for all parts of the country.

Italian Cadastral system geodetic data can be obtained from the Italian geodetic data portal, and it provides access to all geodetic base data of the country, according to the Open Access strategy.

Azerbaijan

Wells in Azerbaijan are normally located by their latitude and longitude. The public land survey system is not used directly in referencing wells.

4.3 Economics

Argentina and Italy

The results of the before tax economic analysis, which are presented for each entity and property summary, are in a condensed form presented on one page for simplicity in analyzing the cash flows, however, if for any reason more extensive breakdown of the cash flow is

[3] Cadastral Registration of the Rights on Real Estate in Argentina, Hilda HERRERA, Argentina

required, a separate schedule can be provided showing the full derivation and breakdown of any or all of the columns on the summary page.

The economic presentation shows the gross property and company gross and net (before and after royalty) production of oil, gas and each NGL product along with the product prices adjusted for oil quality and heating value of gas. Oil prices also include the deduction for trucking costs where applicable for royalty deductions.

The second level includes the revenues, royalties, operating costs, processing income, abandonment costs, capital and cash flow of the property. Operating costs are presented for the gross property and the company share, split between variable and fixed costs, and the effective cost per BOE.

Net revenues are presented annually and as a net back in $/BOE @ 6 Mscf/STB. Revenue from custom processing of oil or gas is presented separately.

The third level of data presents the cumulative cash flow values (present worth) for various discount rates. Also, the net cash flow breakdown is presented. The project profitability criteria are summarized on the bottom right of the page. These data are not relevant in the case of corporate evaluations but are useful in assessing individual capital projects.

For corporate consolidations a second page is included, which repeats the before tax cash flow and presents the Taxable Income, Income Tax Payable, After Income Tax Cash Flows and net present values After Income Tax.

Azerbaijan

The economic analysis for these properties has been presented in a spread sheet format, to accommodate the terms of the Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA).

For all cases, the Tables consist of a total of 5 pages as follows:

1. Production Forecasts for Light and Medium Oil and Capital Expenditures for the three fields combined.
2. Gross Revenue, Operating Costs and Cost Recovery.
3. Production Splits and Profit Oil Calculations.

4. Production Streams and Revenues.
5. Discounted Cash Flow Analysis, Before and After Income Tax.

4.4 Barrels of Oil Equivalent

If at any time in this report reference is made to "Barrels of Oil Equivalent" (BOE), the conversion used is 6 Mscf : 1 STB (6 Mcf : 1 bbl).

BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf : 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalency at the well head.

4.5 Environmental Liabilities

We have been advised by the Company that they are in material compliance with all Environmental Laws and do not have any Environmental Claims pending.

5. BASIS OF REPORT

5.1 Sources of Information

Sources of the data used in the preparation of these reports are as follows:

Argentina and Italy

i) Ownership and Burdens have been derived from the Company's land records and other information from the Company as required for clarification;
ii) Production data is acquired directly from the Company or the operator of the property;
iii) Well data is accessed from the Company's well files;
iv) Operating Costs are based on actual revenue and expense statements provided by the Company for established properties or from discussions with the Company and our experience in the area for new or non-producing properties;
v) Price differentials are derived from revenue statements, compared to actual posted prices for the appropriate benchmark price over a period of several months for established properties or from discussions with the Company and our experience in the area for new or non-producing properties;

vi) Timing of Development Plans and Capital estimates are normally determined by discussions with the Company together with our experience and judgment.

Azerbaijan

i) Ownership and Burdens have been derived from the Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) under which the Company is operating and other information from the Company as required for clarification;
ii) Historical production data has been provided by SOCAR, the State Oil Company of the Azerbaijan Republic, which operated the field until the field was formally handed over to the Company on August 11, 2016;
iii) Well data is accessed from SOCAR's well files;
iv) Operating Costs are based on actual revenue and expense statements provided by SOCAR, from discussions with the Company and a detailed long term budget prepared by the Company;
v) Oil is sold into the Urals Oil system through the Baku-Novorossiysk pipeline system and will receive the average price for Urals Oil;
vi) Timing of Development Plans and Capital estimates have been determined by discussions with the Company together with our experience and judgment.

5.2 Product Prices

Product prices in Argentina are controlled by government policy as discussed in the body of the report. Gas prices in Italy are based on historical data. Oil prices in Azerbaijan are based on comparisons to Ural oil prices.

5.3 Product Sales Arrangement

The Company does not have any "hedge" contracts in place at this time.

5.4 Production Sharing Agreement and Royalties

Production in Argentina is subject to Argentine royalties as will be described in the Discussion.

Production levels in Italy predicted in this report fall below the threshold which would make the royalties applicable, therefore there are no royalty burdens on the Italian gas production.

The oil in Azerbaijan is produced and sold under the provisions of the Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) for the Block including the Muradkhanli, Jafarli and Zardab Oil Fields in the Republic of Azerbaijan. The terms of this agreement are summarized under the Property Description section of the Discussion portion of this report. Additional information is provided in Table 1, following the Discussion.

5.5 Capital Expenditures and Operating Costs

Operating costs and capital expenditures have been based on historical experience and analogy where necessary and are expressed in current year dollars and escalated as follows, unless otherwise described in the Discussion.

2016	- No Escalation
2017-2031	- 2.0% per year
Thereafter	- No Escalation

5.6 Income Tax Parameters

In Azerbaijan, under the terms of the REDPSA, the Company is not subject to any corporate income tax, therefore cash flows before and after income tax are identical. Similarly, for the Argentine and Italian properties, the Company's existing tax pools are sufficient to offset any income taxes.

5.7 Abandonment and Restoration

Argentina and Italy

Abandonment and restoration costs, net of salvage, have been included in the cash flows for the final event of any particular well. The abandonment cost does not impact the economic limit and is included in the final year of production. For marginal wells nearing the end of their economic life, these costs may result in a negative net present value.

In this report, we have accounted for these costs for only the wells which are being evaluated and have not included other shut-in or suspended wells in the Company's inventory or their facilities and pipelines.

Azerbaijan

Abandonment and restoration costs have not been included in this report since the Block is to be returned to SOCAR as a going concern at the end of the 25 year agreement.

6. EVALUATION STANDARD USED

6.1 General

This evaluation and report preparation have been carried out in accordance with standards set out in the APEGA professional practice standard "The Canadian Oil and Gas Evaluation Handbook" ("COGEH"), in conjunction with COGEH definitions are presented below and are generally compliant with PRMS standards.

6.2 Reserve Definitions

The following definitions, extracted from Section 5.4 of the Canadian Oil and Gas Evaluation Handbook, Volume 1 – Second Edition (COGEH-1) published by the Petroleum Society of CIM and the Calgary Chapter of the Society of Petroleum Evaluation Engineers (SPEE) as specified by NI 51-101 have been used in preparing this report. These definitions are compliant with the PRMS.

DEFINITIONS OF RESERVES

The following definitions and guidelines are designed to assist evaluators in making reserves estimates on a reasonably consistent basis, and assist users of evaluation reports in understanding what such reports contain and, if necessary, in judging whether evaluators have followed generally accepted standards.

The guidelines outline

- General criteria for classifying reserves,
- Procedures and methods for estimating reserves,
- Confidence levels of individual entity and aggregate reserves estimates,
- Verification and testing of reserves estimates.

The determination of oil and gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved, probable, and possible reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery.

The estimation and classification of reserves requires the application of professional judgement combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods is required to properly use and apply reserves definitions. The concepts are presented and discussed in greater detail within the guidelines of Section 5.5 of the Canadian Oil and Gas Evaluation Handbook, Volume 1 – Second Edition (COGEH-1).

The following definitions apply to both estimates of individual Reserves Entities and the aggregate of reserves for multiple entities.

RESERVES CATEGORIES

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on

- Analysis of drilling, geological, geophysical, and engineering data;
- The use of established technology;
- Specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

a. Proved Reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

b. Probable Reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved + probable reserves.

c. Possible Reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved + probable + possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in Section 5.5.4 of the Canadian Oil and Gas Evaluation Handbook, Volume 1 – Second Edition (COGEH-1).

DEVELOPMENT AND PRODUCTION STATUS

Each of the reserves categories (proved, probable and possible) may be divided into developed and undeveloped categories.

a. Developed Reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

   Developed Producing Reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

   Developed Non-Producing Reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in and the date of resumption of production is unknown.

b. Undeveloped Reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to sub-divide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

LEVELS OF CERTAINTY FOR REPORTED RESERVES

The qualitative certainty levels contained in the definitions in Section 5.4.1 are applicable to "individual reserves entities," which refers to the lowest level at which reserves calculations are performed, and to "reported reserves," which refers to the highest level sum of individual entity estimates for which reserves estimates are presented. Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- At least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves,
- At least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved + probable reserves,
- At least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved + probable + possible reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates are prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in Section 5.5.3 of the Canadian Oil and Gas Evaluation Handbook, Volume 1 – Second Edition (COGEH-1).

7. SITE VISIT

A field visit to Azerbaijan including the city of Baku and the Muradkhanli, Jafarli and Zardab Oil Fields was conducted between September 14 and 19, 2015 by Charles Moore, Senior Associate of Chapman Petroleum Engineering Ltd. The purpose of this visit was to gather data, meet the local personnel and observe the field operation. Details and photos are presented in Appendix A of the Azerbaijan Discussion.

A personal field examination was not considered to be necessary for the Argentine and Italian properties because the data available from the Company's records and public sources was satisfactory for our purposes.

EXECUTIVE SUMMARY

This Executive Summary presents an overview of the Company's properties and results of the evaluation and, in particular, addresses the information required by the European Securities and Markets Authority (ESMA), Section 132.

(a) Details of the reserves established under COGEH (NI 51-101) standards are presented with their associated net present values on the attached Table 1. The Company has sufficient accumulated tax pools to offset the cash flows projected in this report therefore before and after tax values are equal.

(b) The anticipated project life of these properties based on the established proved and probable reserves and production forecasts are as follows:

i) Argentina – 15 years
ii) Azerbaijan – 25 years (limit of license)
iii) Italy – 15 years

(c) Argentina

These fields are conventional producing operations and we are not aware of any scheduled expiries until the properties are depleted.

Azerbaijan

The wholly owned subsidiary of the Company, Zenith Aran Oil Company Limited ("Zenith Aran") has acquired the exclusive rights to conduct petroleum operations from three petroleum producing onshore fields in Azerbaijan ("the Azeri Operations").

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

On June 14, 2016, the Company received notice of ratification from the Parliament of the Republic of Azerbaijan of the REDPSA granting the Company the rights and obligations for an 80% participating interest in current and future production, as well as acknowledging, Aran Oil Operating Company Ltd. (Aran), an 80% owned subsidiary of Zenith Aran, as operator of the REDPSA. This ratification has transformed the REDPSA into a law of the country, which has been signed by the President of the Republic of Azerbaijan on June 24, 2016.

The REDPSA, executed on March 16, 2016 between SOCAR, Zenith Aran and SOCAR Oil Affiliate ("SOA"), a 100% owned subsidiary of SOCAR, became effective on August 11, 2016, making the Company's rights and obligations under the REDPSA binding law in Azerbaijan.

The handover of production operations from SOCAR to Aran Oil Operating Company Ltd. was also completed on August 11, 2016. There was no interruption of oil production.

Aran will operate under the terms of the REDPSA. Revenue will be divided between Cost Recovery Petroleum and Profit Petroleum. Aran will first recover all operating costs from revenues after deduction of Compensatory Petroleum. Capital costs will then be recovered from 50 percent of the remaining revenue. Any unrecovered costs are carried forward to be recovered in future years. The remaining revenue is divided between Aran and SOCAR according to an R-factor model. The R-factor varies as the ratio between Aran profits and capital costs vary. Aran share of Profit Petroleum varies between 25 and 80 percent.

Zenith Aran will pay 100 percent of all of Aran's costs (including SOA's 20 percent) until the end of the four consecutive calendar quarters where production has been more than two times the average rate in 2015. The carried costs will be recovered from SOA's Profit Petroleum after that time. It is expected that the additional carried cost can be taken from Zenith Aran's Profit Petroleum.

Within 150 days of the Effective Date, Aran will be required to prepare and submit a rehabilitation and production programme to achieve an average daily crude oil production rate from the Contract Rehabilitation Area of 1.5 times the average daily production rate in 2015 by no later than two years following SOCAR's approval of the programme. SOCAR has 60 days to approve the rehabilitation and production programme and is required, pursuant to the terms of the REDPSA not to unreasonably withhold its approval. Based on its review of the technical records for the Contract Rehabilitation Area and site visits conducted by Zenith Aran, the Company is confident that it will be able to present a rehabilitation and production programme that will be approved by SOCAR within the required time.

The development and production period for the Contract Rehabilitation Area is 25 years from the date of SOCAR's approval of the rehabilitation programme which is anticipated to occur in late 2016. A possible additional five year extension may be approved by SOCAR.

The REDPSA includes a Contract Exploration Area which has not been evaluated in the CPR. Failure to complete the Minimum Exploration Work Programme in respect of the Contract Exploration Area does not impact operations in the Rehabilitation Area which is the focus of the CPR. The Exploration portion of the REDPSA has been assigned no value or liability in the CPR. Exploration may provide an upside to the value of the REDPSA but it is not evaluated herein.

<u>Italy</u>

The nine Italian production concessions are subject to different expiry dates. Only four of these concessions have been evaluated herein, while the other five were not commercially significant.

- Lucera Concession – The scheduled expiry date is 2017 but the Operator will apply for an additional ten year extension in view of the remaining reserves.

- Misano Concession – This concession is scheduled to expire in 2020 but extensions are expected based on the remaining reserves.

- San Mauro Concession – This concession is scheduled to expire in 2020 but extensions are expected based on the remaining reserves.

- Torrente Cigno Concession – This concession is scheduled to expire in 2019, with the intention that it be renewed to align with the Company's additional development plans.

In general we have made the assumption for this evaluation that extensions to the producing concessions will be granted due to continuing production. For the other production concessions not evaluated this is a non-issue relating to this report.

(d) All properties in this report in Argentina, Azerbaijan and Italy are located in active producing fields with conventional infrastructure for producing to market. The fields are developed and have many years of production history. The Company plans for future development and expansion of these properties.

(e) The results of this evaluation are based on facts and assumptions typical of this type of engagement. It should be noted that under COGEH Section 7.8.2 evaluations are conducted without consideration of the availability of capital for funding the scheduled development. The product price forecasts used for this evaluation, shown in Attachments 1a, 1b and 1c, are based on history and analysis and reflect a current industry consensus, however variations may occur and the variations could be material.

Table 1
Summary of Company Reserves and Economics
Before Income Tax
September 1, 2016

Forecast Prices & Costs

Combined Properties - Argentina, Azerbaijan and Italy

Zenith Energy Ltd.

Description	Light and Medium Oil MSTB Gross	Light and Medium Oil MSTB Net	Sales Gas MMscf Gross	Sales Gas MMscf Net	NGL Mbbls Gross	NGL Mbbls Net	Cumulative Cash Flow (BIT) - M$ Undisc.	Discounted at: 5%/year	10%/year	15%/year	20%/year
PROVED											
Proved Developed Producing											
Argentina	36	33	0	0	0	0	290	382	393	374	347
Azerbaijan	468	468	0	0	0	0	3,899	3,013	2,405	1,972	1,653
Italy	0	0	1,584	1,584	9	9	2,361	1,926	1,604	1,360	1,174
Total Proved Developed Producing	**504**	**501**	**1,584**	**1,584**	**9**	**9**	**6,550**	**5,322**	**4,403**	**3,706**	**3,174**
Proved Undeveloped											
Azerbaijan	3,686	3,686	0	0	0	0	108,174	59,282	32,018	16,401	7,288
Total Proved Undeveloped	**3,686**	**3,686**	**0**	**0**	**0**	**0**	**108,174**	**59,282**	**32,018**	**16,401**	**7,288**
Total Proved	**4,190**	**4,187**	**1,584**	**1,584**	**9**	**9**	**114,724**	**64,603**	**36,421**	**20,107**	**10,462**
PROBABLE											
Probable Developed Producing											
Argentina Incr.	45	41	0	0	0	0	638	649	588	519	456
Azerbaijan Incr.	138	138	0	0	0	0	216	92	22	(18)	(40)
Italy Incr.	0	0	1,598	1,598	10	10	3,696	1,990	1,147	699	448
Total Probable Developed Producing	**183**	**179**	**1,598**	**1,598**	**10**	**10**	**4,550**	**2,731**	**1,757**	**1,200**	**863**
Probable Developed Non-Producing											
Argentina	410	373	0	0	0	0	11,502	8,606	6,590	5,159	4,118
Azerbaijan	890	890	0	0	0	0	40,558	29,742	22,589	17,654	14,126
Total Probable Developed Non-Producing	**1,300**	**1,263**	**0**	**0**	**0**	**0**	**52,060**	**38,348**	**29,179**	**22,813**	**18,244**
Probable Undeveloped											
Azerbaijan	28,242	28,242	0	0	0	0	1,831,573	805,551	393,141	210,129	121,269
Italy	0	0	13,413	13,413	91	91	33,642	11,994	5,785	3,284	2,027
Total Probable Undeveloped	**28,242**	**28,242**	**13,413**	**13,413**	**91**	**91**	**1,865,215**	**817,545**	**398,926**	**213,413**	**123,296**
Total Probable	**29,725**	**29,684**	**15,010**	**15,010**	**101**	**101**	**1,921,826**	**858,624**	**429,862**	**237,427**	**142,404**
PROVED PLUS PROBABLE											
Argentina	492	447	0	0	0	0	12,430	9,636	7,571	6,051	4,921
Azerbaijan	33,424	33,424	0	0	0	0	1,984,420	897,679	450,175	246,138	144,296
Italy	0	0	16,594	16,594	109	109	39,699	15,912	8,535	5,343	3,649
Total Proved Plus Probable	**33,915**	**33,871**	**16,594**	**16,594**	**109**	**109**	**2,036,550**	**923,227**	**466,282**	**257,534**	**152,866**

Net To Appraised Interest

M$ means thousands of US dollars

Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

Columns may not add precisely due to accumulative rounding of values throughout the report.

Attachment 1a
CHAPMAN PETROLEUM ENGINEERING LTD.
International Price - Crude Oil & Natural Gas
HISTORICAL, CONSTANT, CURRENT AND FUTURE PRICES
September 1, 2016

Date		WTI [1] $US/STB	Brent Spot (ICE)[2] $US/STB	Argentinean Oil [3] $US/STB
HISTORICAL PRICES				
2004		41.48	38.03	N/A
2005		56.62	55.28	N/A
2006		65.91	66.09	N/A
2007		72.35	72.74	N/A
2008		99.70	98.33	N/A
2009		61.64	62.52	N/A
2010		79.42	80.22	N/A
2011		95.03	109.67	N/A
2012		94.16	108.75	N/A
2013		97.93	108.68	N/A
2014		93.12	99.43	N/A
2015		48.69	53.32	59.64
2016	8 mos	40.72	42.56	54.90
CONSTANT PRICES (The average of the first-day-of-the-month price for the preceding 12 months-SEC)				
		41.67	43.39	**50.00**
Constant thereafter				

Notes:
[1] West Texas Intermediate quality (D2/S2) crude landed in Cushing, Oklahoma.
[2] The Brent Spot price is estimated based on historic data.
[3] Argentinean oil price data provided by client.

Attachment 1b
CHAPMAN PETROLEUM ENGINEERING LTD.
CRUDE OIL
HISTORICAL, CONSTANT, CURRENT AND FUTURE PRICES
September 1, 2016

Date		WTI [1] $US/STB	Brent Spot (ICE)[2] $US/STB	Urals Crude Price [3] $US/STB
HISTORICAL PRICES				
2009		61.95	61.74	59.97
2010		79.48	79.61	77.93
2011		94.88	111.26	109.67
2012		94.05	111.63	110.78
2013		97.98	108.56	108.04
2014		93.12	99.43	N/A
2015		48.69	53.32	N/A
2016	8 mos	40.72	42.56	N/A
CONSTANT PRICES (The average of the first-day-of-the-month price for the preceding 12 months-SEC)				
		41.67	43.39	41.89
FORECAST PRICES				
2016	4 mos	50.00	52.00	**50.50**
2017		55.00	57.00	**55.50**
2018		65.00	67.00	**65.50**
2019		70.00	72.00	**70.50**
2020		75.00	77.00	**75.50**
2021		78.00	80.00	**78.50**
2022		81.00	83.00	**81.50**
2023		82.00	84.00	**82.50**
2024		83.64	85.64	**84.14**
2025		85.31	87.31	**85.81**
2026		87.02	89.02	**87.52**
2027		88.76	90.76	**89.26**
2028		90.53	92.53	**91.03**
2029		92.35	94.35	**92.85**
2030		94.19	96.19	**94.69**
2031		96.08	98.08	**96.58**

Escalated 2% thereafter

Notes:
[1] West Texas Intermediate quality (D2/S2) crude (40API) landed in Cushing, Oklahoma.
[2] The Brent Spot price is estimated based on historic data.
[3] Urals Oil is the reference used as a basis for pricing, which historically has averaged Brent less $1.50/Bbl.

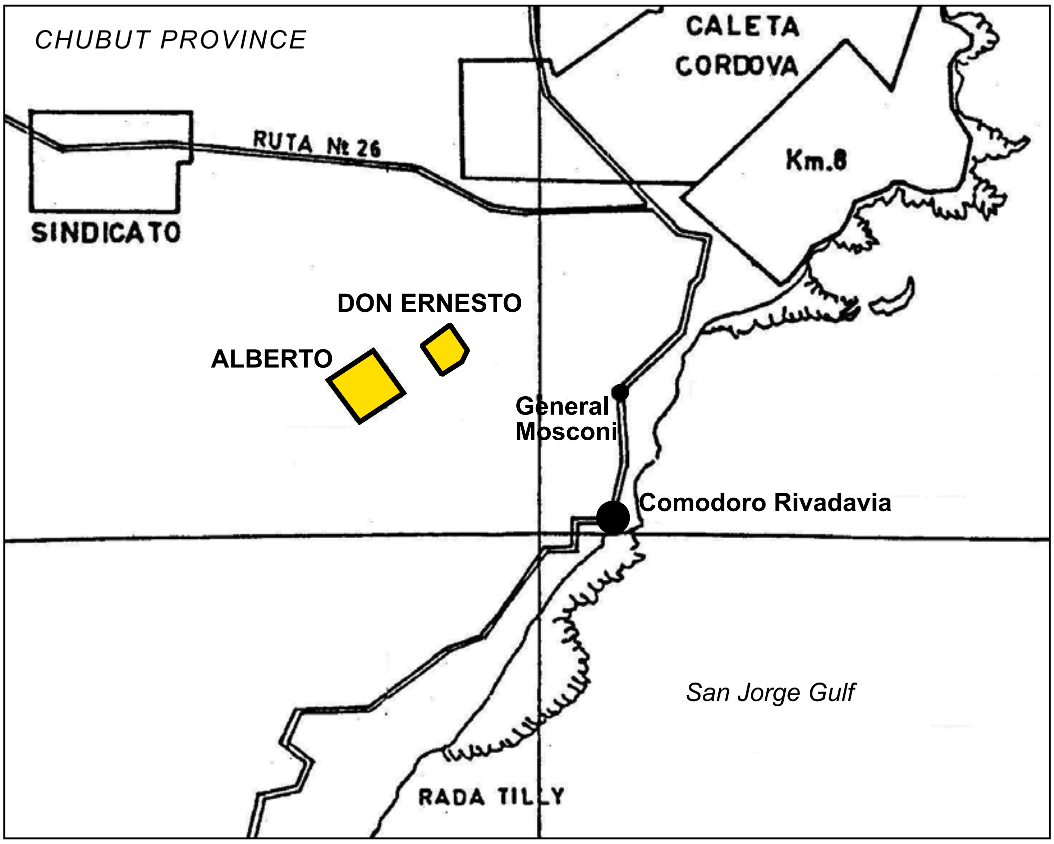
Attachment 1c

CHAPMAN PETROLEUM ENGINEERING LTD.
International Price - Crude Oil & Natural Gas
HISTORICAL, CONSTANT, CURRENT AND FUTURE PRICES

September 1, 2016

Date		Brent Spot (ICE)[1] $US/STB	Torrente Cigno Condensate [2] $US/BBL	Europe Gas Gas[3] $US/Mcf	Torrente Cigno Gas[5] $US/Mcf	Misano Adriatico Gas[4] $US/Mcf	Lucera Gas[4] $US/Mcf	San Mauro Gas[4] $US/Mcf
HISTORICAL PRICES								
2009		61.74	N/A	9.03	N/A	N/A	N/A	N/A
2010		79.61	N/A	8.29	N/A	N/A	N/A	N/A
2011		111.26	N/A	9.65	N/A	N/A	N/A	N/A
2012		111.63	N/A	10.66	N/A	N/A	N/A	N/A
2013		108.56	135.52	11.11	7.10	14.89	11.40	11.44
2014		99.43	97.09	9.49	1.81	9.94	8.99	8.99
2015		53.32	51.50	6.87	2.07	6.95	5.49	5.49
2016	8 mos	42.56	40.86	4.47	3.77	6.03	4.32	4.47
CONSTANT PRICES (The average of the first-day-of-the-month price for the preceding 12 months-SEC)								
		43.39	N/A	N/A	N/A	N/A	N/A	N/A
FORECAST PRICE								
2016	4 mos	**52.00**	46.92	**4.50**	1.45	4.94	3.91	3.91
2017		**57.00**	51.92	**4.80**	1.55	5.27	4.17	4.17
2018		**67.00**	61.92	**5.10**	1.65	5.60	4.43	4.43
2019		**72.00**	66.92	**5.50**	1.78	6.04	4.77	4.77
2020		**77.00**	71.92	**5.80**	1.87	6.36	5.03	5.03
2021		**80.00**	74.92	**6.20**	2.00	6.80	5.38	5.38
2022		**83.00**	77.92	**6.60**	2.13	7.24	5.73	5.73
2023		**84.00**	78.92	**7.00**	2.26	7.68	6.08	6.08
2024		**85.64**	80.56	**7.50**	2.42	8.23	6.51	6.51
2025		**87.31**	82.23	**8.00**	2.58	8.78	6.94	6.94
2026		**89.02**	83.94	**8.20**	2.65	9.00	7.12	7.12
2027		**90.76**	85.68	**8.40**	2.71	9.22	7.29	7.29
2028		**92.53**	87.45	**8.60**	2.78	9.44	7.46	7.46
2029		**94.35**	89.27	**8.80**	2.84	9.66	7.64	7.64
2030		**96.19**	91.11	**9.00**	2.91	9.88	7.81	7.81
2031		**98.08**	93.00	**9.20**	2.97	10.10	7.98	7.98
Constant thereafter								

Notes:
[1] The Brent Spot price is estimated based on historic data.
[2] Torrente Cigno Condensate price forecast is based on Chapman price forecast plus difference of actually received in T.C. in 2015/09-2016/08.
[3] Europe gas price forecast comes from Word Bank Forecast (Annual prices and Price Forecasts)
[4] Italy gas price forecast is based on actually received field price compare to European gas price in 2015/09 - 2016/08.
[5] Torrente Cigno price reflects the contribution from electrical generation revenue.



LEGEND

AREA OF INTEREST

COMPANY LANDS

ZENITH ENERGY LTD.
ALBERTO & DON ERNESTO FIELDS **CHUBUT PROVINCE, ARGENTINA** **ORIENTATION MAP**
SEP. 2016 **JOB No. 6264**

32

Chapman Petroleum Engineering Ltd.

ALBERTO FIELD AND DON ERNESTO FIELD

CHUBUT PROVINCE, ARGENTINA

INDEX

ALBERTO FIELD AND DON ERNESTO FIELD
CHUBUT PROVINCE, ARGENTINA
DISCUSSION

Property Description

The Company owns a 100 percent working interest in two oil fields, Alberto and Don Ernesto, covering approximately 740 contiguous acres, and located onshore in the Chubut Province of Argentina, about 12 miles west of Comodoro Rivadavia and 1,000 miles south of Buenos Aires.

Production of these fields will be subject to the royalty and tax regime of Argentina.

A map showing the fields' locations is presented on the Orientation Map, and a strict description of the ownership is presented in Table 1.

Geology

The Alberto and Don Ernesto Blocks are located on the north flank of the San Jorge Basin of Argentina. This basin is one of the major producing basins of Argentina and is located in southern Argentina in the Central Patagonia region as shown on the map, Figure 1c. It has an east-west trend with an area of approximately 70,000 square miles of which about one-third extends eastward offshore onto the continental shelf. The boundaries of the San Jorge Basin consist of the Andes Mountain Belt to the west, the stable cratonic blocks of the Somin Cura Massif to the north and the Deseado Massif to the south and the Atlantic continental margin to the east. The basin is divided into eastern and western areas by the north-south trending San Bernardo Belt, a compressive fold belt. The major oil pools are located on the northern and southern flanks of the onshore portion of the eastern area with the Alberto and Don Ernesto Blocks situated on the northern flank of the basin, as shown on Figure 2a.

A north-south cross-section through the San Jorge Basin shown on Figure 2b illustrates the dominantly extensional nature of this basin. Normal faulting associated with extensional rifting occurred from Jurassic through to the Early Cretaceous which resulted in the formation of numerous graben and half-graben structures trending NW-SE. This was followed by a period of basinal subsidence during the rest of the Cretaceous. The Tertiary period is characterized by both compressional and extensional features dominated by the Andean orogeny.

The central portion of the basin has over 8000 metres of sedimentary section but the productive flanks have considerably less thickness. The Table of Formations shown in Figure 2c illustrates the Jurassic to Tertiary sedimentary deposits. Economic basement in this basin is a sedimentary-volcanic complex of Jurassic Age. Source rocks are found in the black shales of the Neocomian as well as the basal unit of the Chubut Group, the Pozo D-129 Formation.

The Chubut Group of Cretaceous Age contains the reservoir units of the San Jorge Basin. It was deposited on a major unconformity and is 500 to 2000 metres in thickness. The unit has more sand content on the flanks than in the central portion of the basin evident in the productive oil fields on the northern and southern flanks of the basin. The upper three formations were deposited under continental conditions and the sands of these units comprise the major reservoirs. They are fluvial and lacustrine sands with a greater concentration of meandering fluvial deposits in the basal Mina del Carmen Formation and more extensive braided fluvial deposits in the medial Comodoro Rivadavia Formation. The basal fluvial sands of the El Trebol Formation are also productive. At the end of the Cretaceous, an Atlantic marine transgression occurred and deposited the Tertiary sequence that caps the sedimentary section of the San Jorge Basin.

Reserves

Total proved developed producing oil reserves of 36 MSTB have been estimated for the Cretaceous Sands zone in seven producing wells. These estimates are based on economic analysis of the property. The production history and the assumed decline are presented on Figure 3a.

Incremental probable developed producing oil reserves of 45 MSTB have been estimated for the 13 producing wells based on economic analysis. The assumed decline and starting point are presented on Figures 3b.

Additional probable developed non-producing oil reserves of 410 MSTB have been assigned for 11 currently suspended wells, for which well workovers are planned. This estimation is based on the assumption that after a workover these wells will come on production at an average daily rate of 15 STB/d and a decline of 12 percent.

Production

Alberto and Don Ernesto fields produce oil from multiple Cretaceous Sand completions below the shallow glauconitic marine formation. The Alberto field began producing in 1998. The Don Ernesto field also began producing in 1998. Total cumulative production to date is 13,875 MSTB.

Current oil production is about 36 STB/d, averaging 5.1 STB/d per well for the 7 wells. The current rates were assumed for the proved case declining historically to an eventual economic limit.

In the middle of 2015, the Company's production was restricted by a pipeline and facilities problem which has now been resolved. Full restored production to the August 2015 level is anticipated by early 2017.

For the proved plus probable case we assumed that both fields' wells will produce at a combined daily production rate of 75 STB/d and a decline rate of 20%.

The Company is planning workovers (pumping equipment improvement) for 11 currently suspended wells. The expected daily production rate is assumed to be 165 STB/d (averaging 15 STB/d per well).

Product Prices

An average 2016 oil price of $50.00/STB has been utilized for this area based on information provided by the Company. Oil prices are controlled by the government and have been held constant through the life of the project, as shown in Attachment 1.

Capital Expenditures

Total capital expenditures of $550,000 have been estimated for the workover of 11 currently abandoned, as presented in Table 3a.

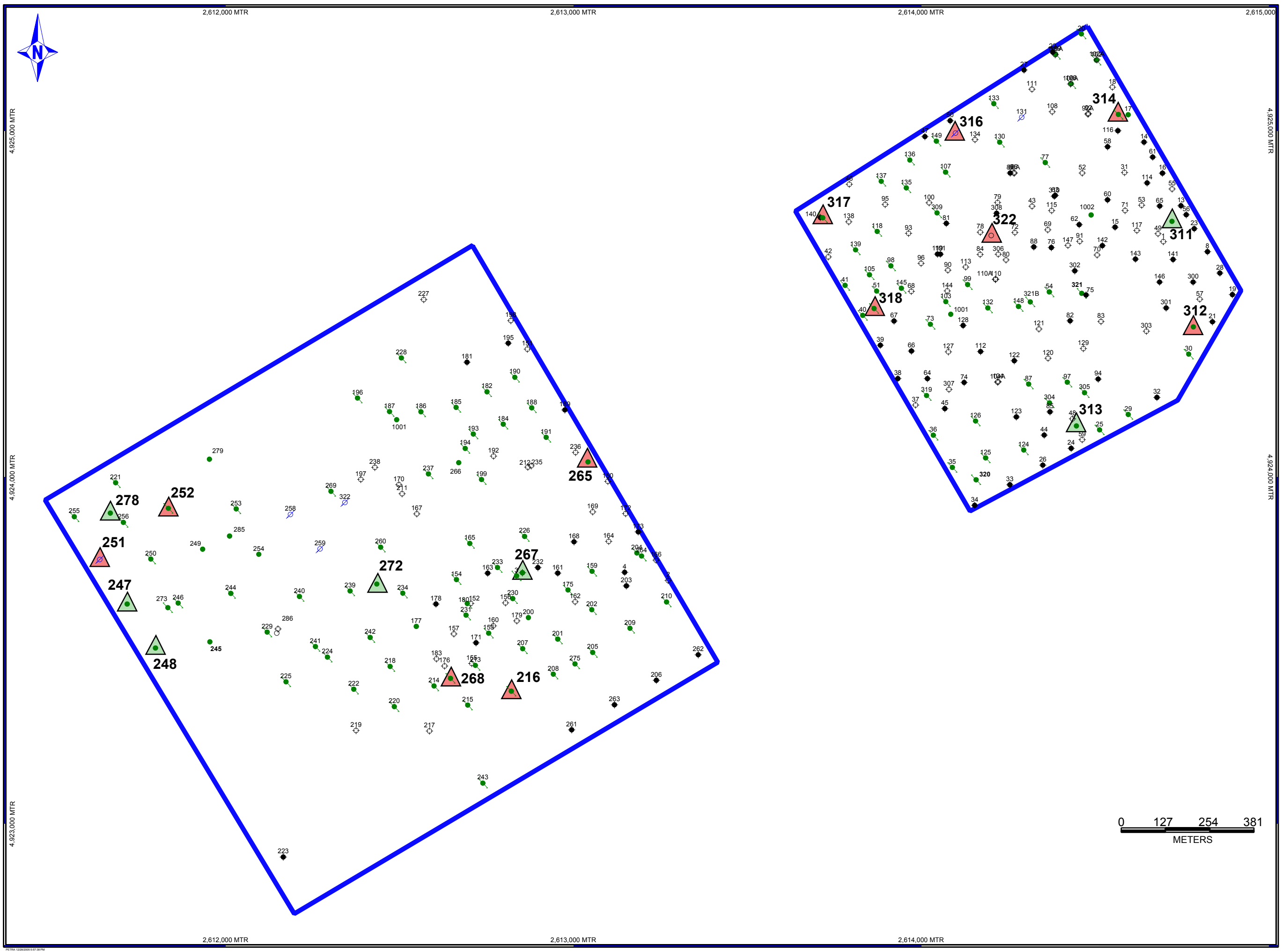
Total abandonment liabilities of $1,200,000 have been estimated ($50,000 per well) based on a reasonable expectation for these type of wells. The abandonment and restoration costs are presented in Table 3b.

Operating Costs

Operating costs for this area have been estimated to be $2,000 per well per month and $1.65/STB, based on information provided by the Company. This includes the cost of water re-injection and oil handling.

Economics

An economic summary is presented on Table 4 and the results of our economic analysis are presented on Tables 4a through 4d.



WELL SYMBOLS

- Oil Well
- Dry Hole
- Injection Well
- Plugged and Abandoned
- Shut In Oil Well

- Wells of Interest
- Producing Well
- Well Planned for Workover

ZENITH ENERGY LTD.

ALBERTO & DON ERNESTO FIELDS

CHUBUT PROVINCE, ARGENTINA

LAND AND WELL MAP

SEP. 2016 JOB No. 6264 FIGURE No. 1

38

Chapman Petroleum Engineering Ltd.

Table 1

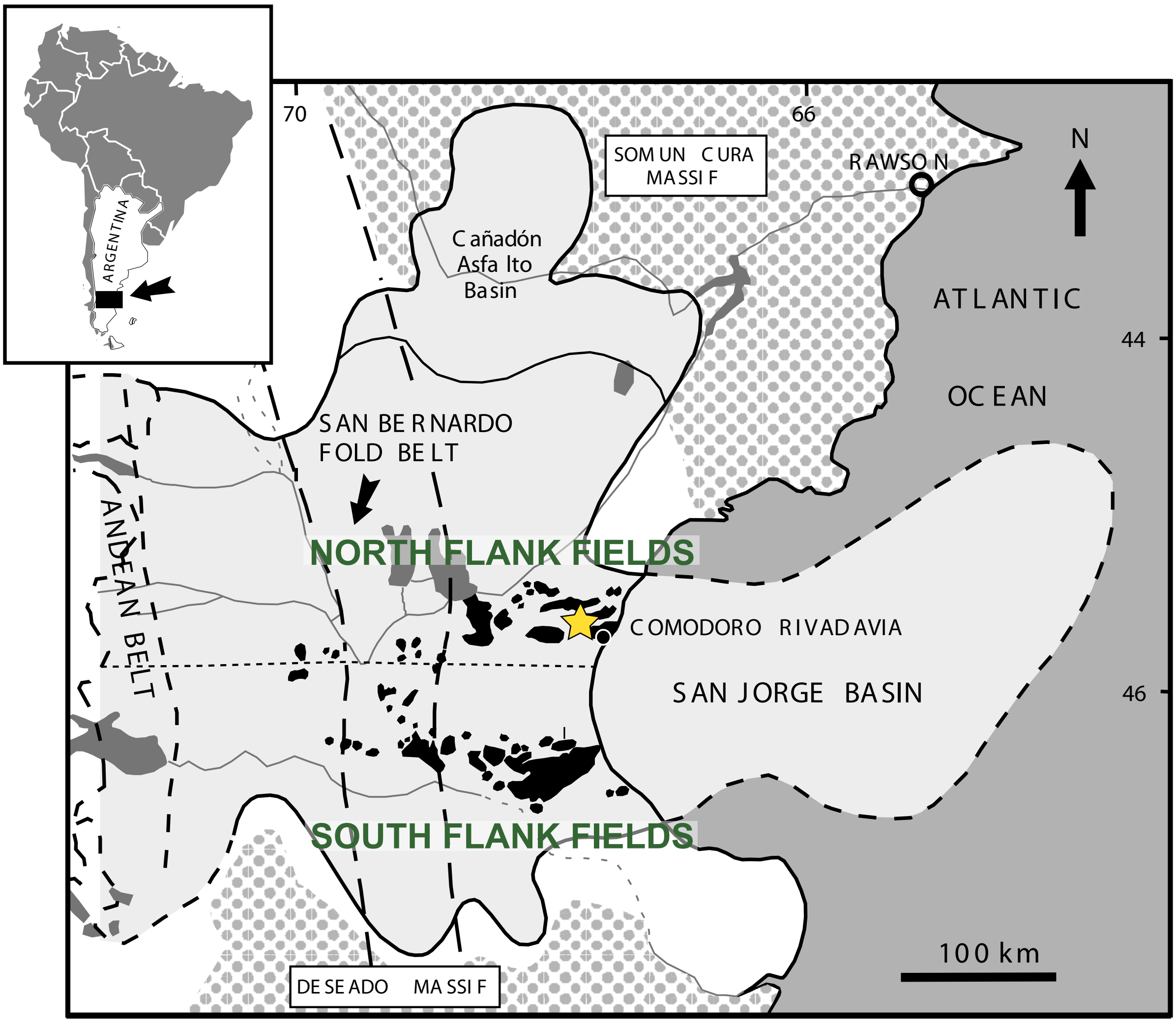
Schedule of Lands, Interests and Royalty Burdens
September 1, 2016

Zenith Energy Ltd.

Chubut Province, Argentina

			Appraised Interest		Royalty Burdens	
Description	Rights Owned	Gross Acres	Working %	Royalty %	Basic %	Overriding %
Alberto Field	[A]	490	100.0000	-	9.0000	-
Don Ernesto Field	[A]	250	100.0000	-	9.0000	-
	Total	**740**				

Rights Owned : [A] All P&NG.



Oil fields

Massifs

Rivers and Lakes

AREA OF INTEREST

ZENITH ENERGY LTD.

SAN JORGE BASIN

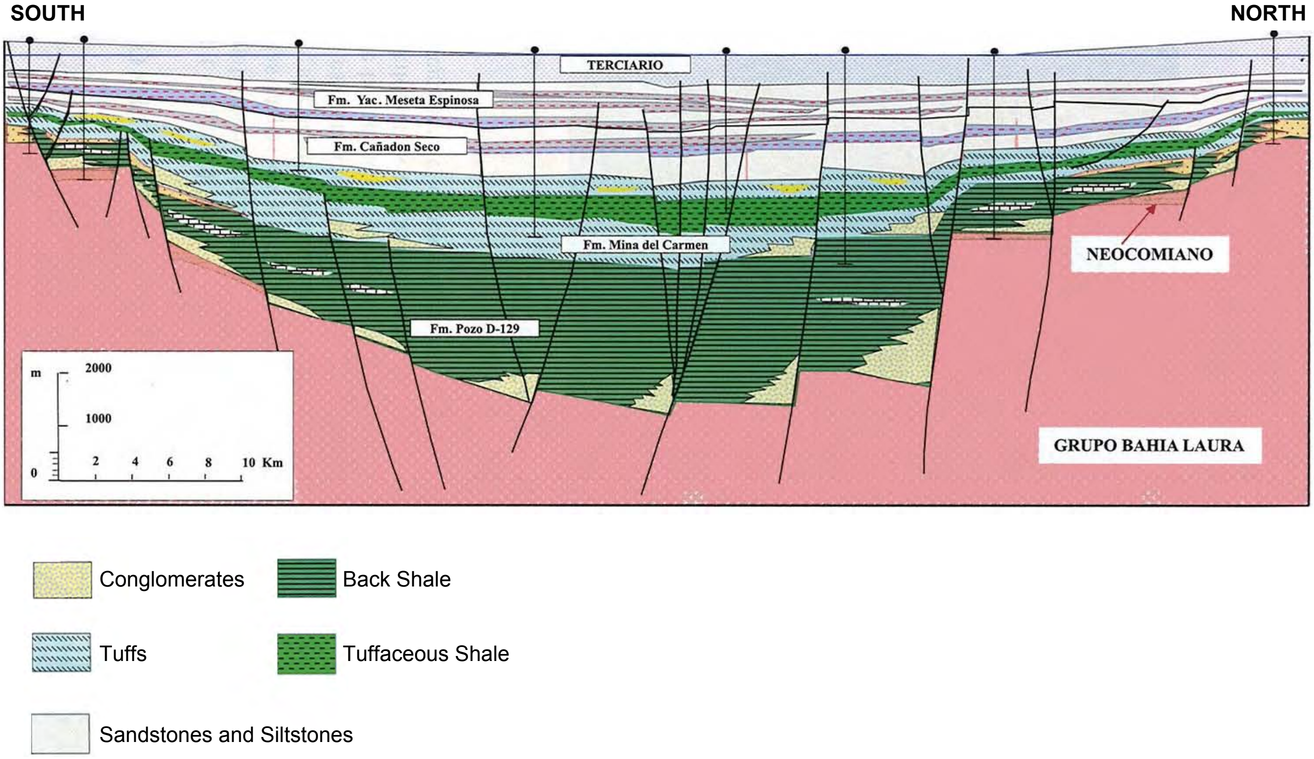
ARGENTINA

REGIONAL GEOLOGY

SEP. 2016 **JOB No. 6264** **FIGURE No. 2a**

40

Chapman *Petroleum Engineering Ltd.*



ZENITH ENERGY LTD.

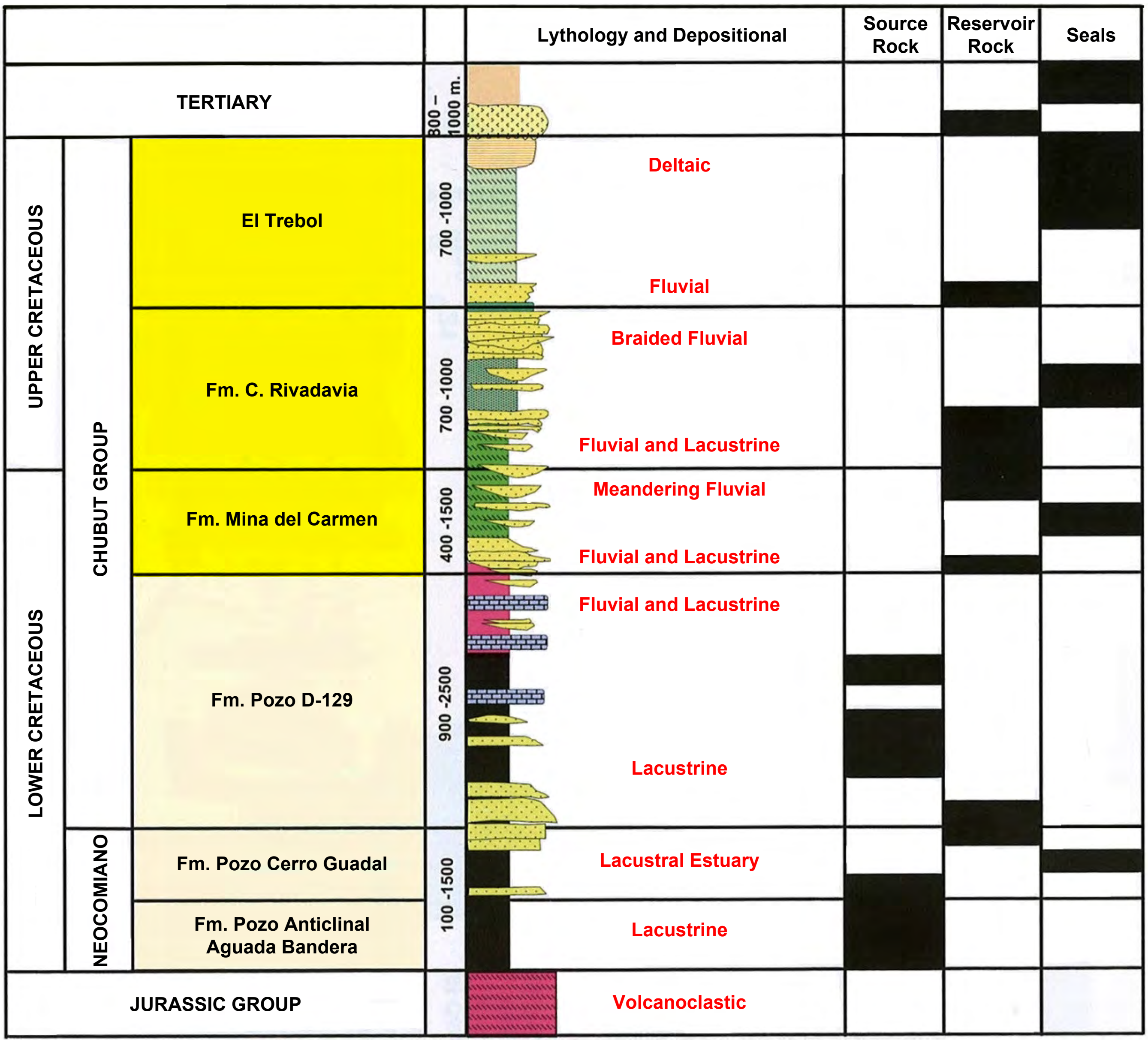
SAN JORGE BASIN

ARGENTINA

REGIONAL CROSS SECTION

SEP. 2016 **JOB No. 6264** **FIGURE No. 2b**

Chapman Petroleum Engineering Ltd.



ZENITH ENERGY LTD.

SAN JORGE BASIN

ARGENTINA

TABLE OF FORMATIONS

SEP. 2016 JOB No. 6264 FIGURE No. 2c

Chapman Petroleum Engineering Ltd.

Table 2

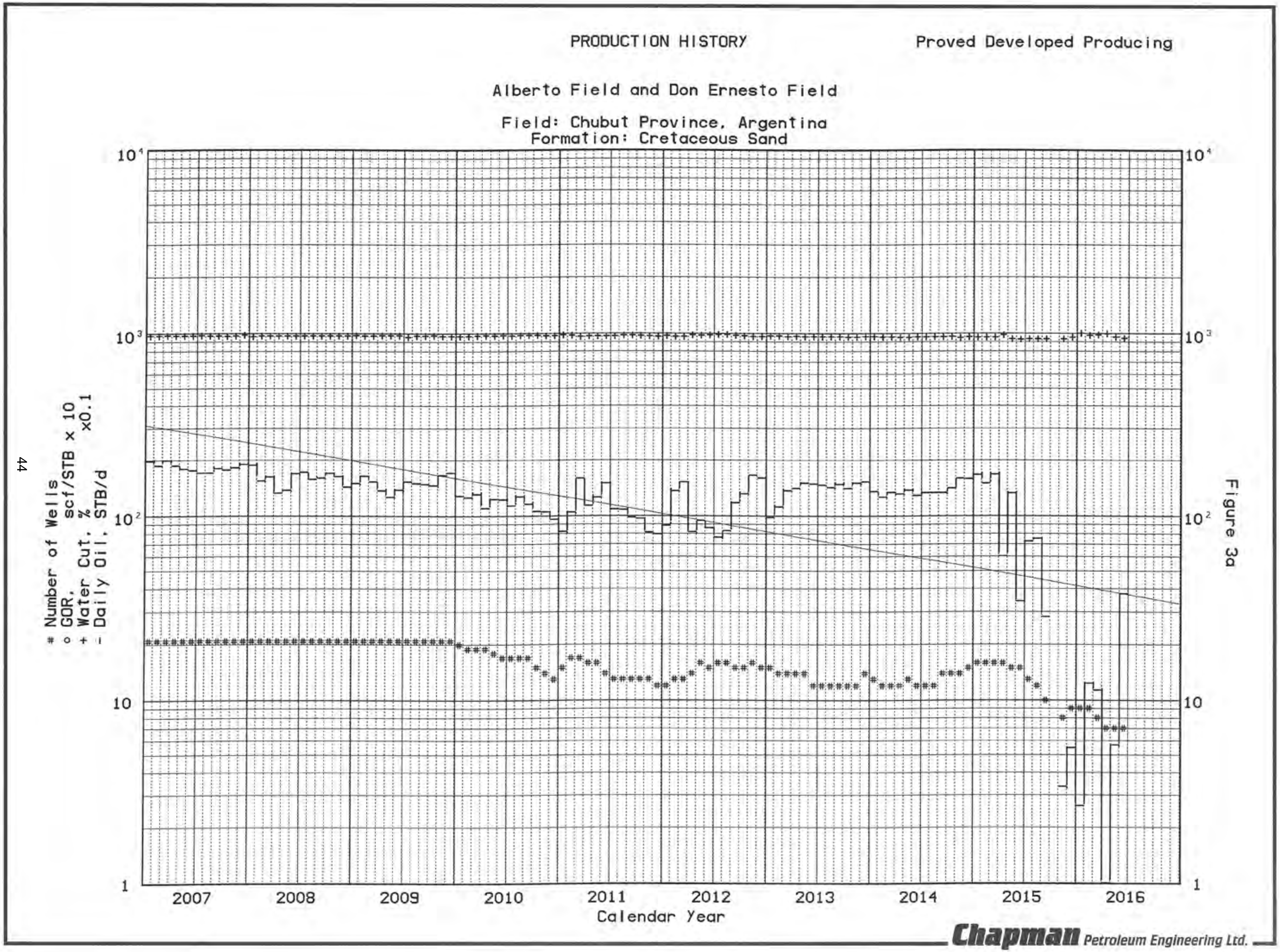
Summary of Gross Reserves
September 1, 2016

Chubut Province, Argentina

Description		Current or Initial Rate STB/d	API Gravity (Deg)	Ultimate ROIP (MSTB)	Cumulative Production (MSTB)	Remaining ROIP (MSTB)	Reference
LIGHT & MEDIUM OIL							
Proved							
Proved Developed Producing							
Alberto and Don Ernesto (7 wells)	Cretaceous Sand	36	19	13,911	13,875 [1]	36	Figure 3a and Economics
Total Proved Developed Producing		**36**		**13,911**	**13,875**	**36**	
Total Proved		**36**		**13,911**	**13,875**	**36**	
Probable							
Probable Developed Producing							
Alberto and Don Ernesto (13 wells)	Cretaceous Sand (incr.)	40	19	45	0	45	Figure 3b and Economics
Total Probable Developed Producing		**40**		**45**	**0**	**45**	
Probable Developed Non-Producing (Workover Program)							
Alberto and Don Ernesto (11 wells)	Cretaceous Sand	165	19	1,267	857 [2]	410	Economics
Total Probable Developed Non-Producing		**165**		**1,267**	**857**	**410**	
Total Probable		**205**		**1,312**	**857**	**455**	
Total Proved Plus Probable		**241**		**15,223**	**13,875**	**491**	

Notes: [1] This number represents the total cumulative production for Alberto and Don Ernesto Fields.

[2] This number is included in the total cumulative production in [1].


PRODUCTION HISTORY
Proved Developed Producing
Alberto Field and Don Ernesto Field
Field: Chubut Province, Argentina
Formation: Cretaceous Sand
Number of Wells
o GOR, scf/STB x 10
+ Water Cut, % x0.1
- Daily Oil, STB/d
10^4
10^3
10^2
10
1
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Calendar Year
Chapman Petroleum Engineering Ltd.
Figure 3a

44

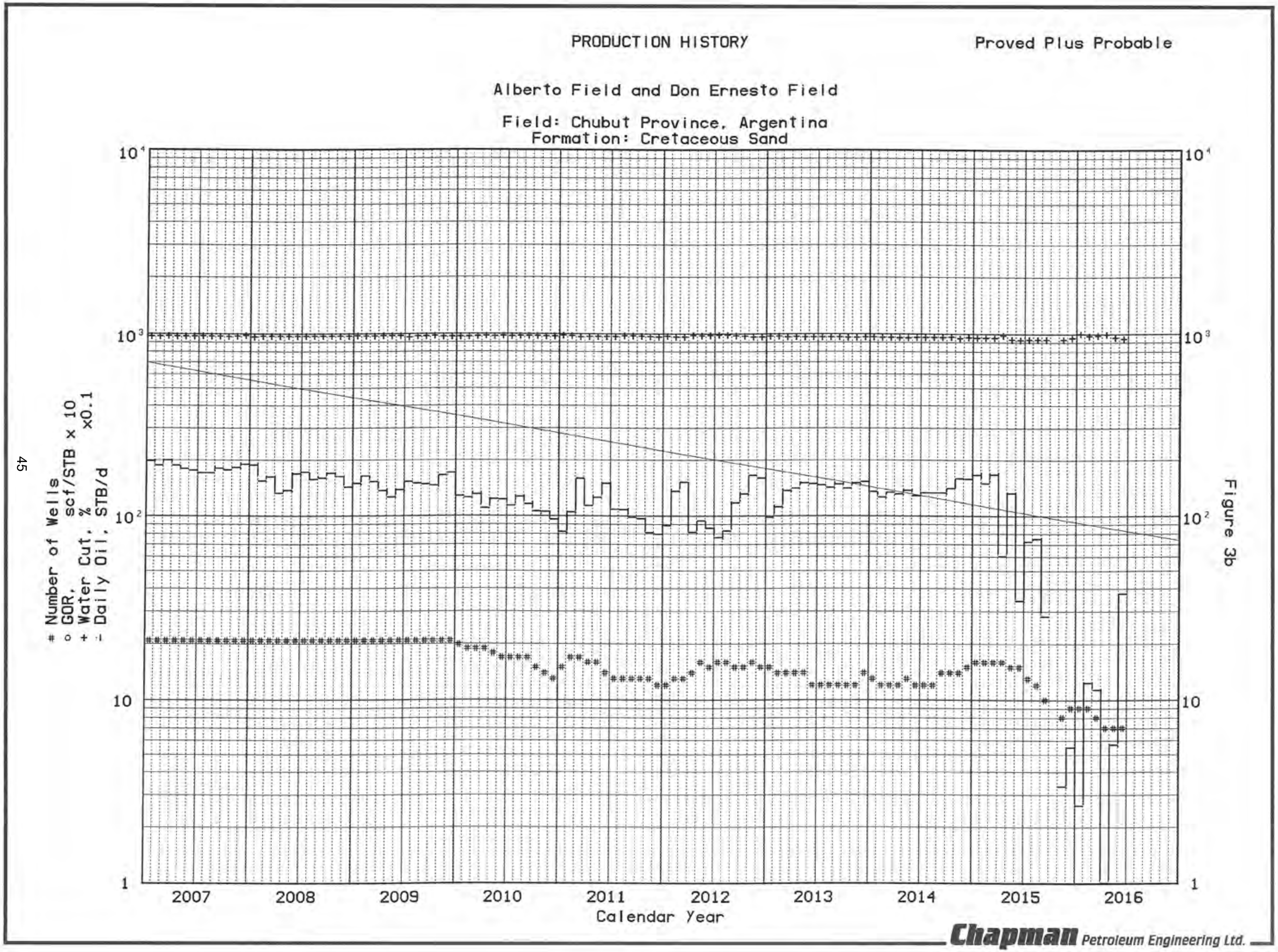

PRODUCTION HISTORY
Proved Plus Probable
Alberto Field and Don Ernesto Field
Field: Chubut Province, Argentina
Formation: Cretaceous Sand
Number of Wells
○ GOR, scf/STB × 10
+ Water Cut, % ×0.1
- Daily Oil, STB/d
10⁴
10³
10²
10
1
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Calendar Year
Figure 3b
Chapman Petroleum Engineering Ltd.

Table 3a

Summary of Anticipated Capital Expenditures

Development

September 1, 2016

Zenith Energy Ltd.

Chubut Province, Argentina

Description	Date	Operation	Capital Interest %	Gross Capital M$	Net Capital M$
Probable					
Probable Developed Non-Producing					
Alberto and Don Ernesto Fields	2018-2019	Perform workovers and place on production 11 wells	100.0000	550	550
				550	**550**

Note: **M$ means thousands of dollars.**
The above capital values are expressed in terms of current dollar values without escalation.
Unless details are known, drilling costs have been split 70% Intangible and 30% Tangible for tax purposes

Table 3b

Summary of Anticipated Capital Expenditures
Abandonment and Restoration

September 1, 2016

Zenith Energy Ltd.

Chubut Province, Argentina

Description	Well Parameters	Capital Interest %	Gross Capital M$	Net Capital M$
Alberto Field abd Don Ernesto Fields	Abandone 24 oil wells	100.0000	1,200	1,200
	Total Abandonment and Restoration		**1,200**	**1,200**

Note: **M$ means thousands of dollars.**
The above capital values are expressed in terms of current dollar values without escalation.

Table 4
Summary of Company Reserves and Economics
Before Income Tax
September 1, 2016
Zenith Energy Ltd.
Chubut, Argentina

Forecast Prices & Costs

			Net To Appraised Interest										
			Reserves						Cumulative Cash Flow (BIT) - M$				
			Light and Medium Oil MSTB		Sales Gas MMscf		NGL Mbbls			Discounted at:			
Description			Gross	Net	Gross	Net	Gross	Net	Undisc.	5%/year	10%/year	15%/year	20%/year
Proved Developed Producing													
Alberto and Don Ernesto 7 Wells	Cretatious Sand		36	33	0	0	0	0	290	382	393	374	347
Total Proved Developed Producing			**36**	**33**	**0**	**0**	**0**	**0**	**290**	**382**	**393**	**374**	**347**
Probable													
Probable Developed Producing													
Alberto and Don Ernesto 13 Wells	Cretatious Sand	Incr.	45	41	0	0	0	0	638	649	588	519	456
Total Probable Developed Producing			**45**	**41**	**0**	**0**	**0**	**0**	**638**	**649**	**588**	**519**	**456**
Probable Developed Non-Producing													
Alberto and Don Ernesto 11 Workovers	Cretatious Sand		410	373	0	0	0	0	11,502	8,606	6,590	5,159	4,118
Total Probable Developed Non-Producing			**410**	**373**	**0**	**0**	**0**	**0**	**11,502**	**8,606**	**6,590**	**5,159**	**4,118**
Total Probable			**455**	**414**	**0**	**0**	**0**	**0**	**12,140**	**9,254**	**7,178**	**5,677**	**4,574**
Total Proved Plus Probable			**492**	**447**	**0**	**0**	**0**	**0**	**12,430**	**9,636**	**7,571**	**6,051**	**4,921**

M$ means thousands of US dollars.

Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

Columns may not add precisely due to accumulative rounding of values throughout the report.

Table 4a

EVALUATION OF: Chubut, Argentina - Proved Developed Producing

ERGO v7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 03-OCT-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
RUN DATE: 6-OCT-2016 TIME: 9:51
FILE: OarPP1.DAX

WELL/LOCATION - Alberto and Don Ernesto 7 Wells (Cretatious Sand)
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 36286 STB
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 471 -M$- (2032)
NOTE: ECONOMIC LIMIT OCCURS IN 2032

INTEREST

AVG WI 100.0000%

ROYALTIES/TAXES

STATE + AVG GR 9.00%

Oil STB

Year	# of Wells	Price $/STB	Pool STB/D	Pool Vol	Company Share Gross	Company Share Net
2016	7	50.00	35.6	1176	1176	1070
2017	7	50.00	34.6	3461	3461	3149
2018	7	50.00	32.6	3257	3257	2964
2019	7	50.00	30.6	3065	3065	2789
2020	7	50.00	28.8	2884	2884	2625
2021	7	50.00	27.1	2714	2714	2470
2022	7	50.00	25.5	2554	2554	2324
2023	7	50.00	24.0	2404	2404	2187
2024	7	50.00	22.6	2262	2262	2058
2025	7	50.00	21.3	2129	2129	1937
2026	7	50.00	20.0	2003	2003	1823
2027	7	50.00	18.9	1885	1885	1715
2028	7	50.00	17.7	1774	1774	1614
2029	7	50.00	16.7	1669	1669	1519
2030	7	50.00	15.7	1571	1571	1430
SUB				34808	34808	31675
REM				1478	1478	1345
TOT				36286	36286	33021

= P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/STB	FR After Roy&Oper -M$-	Net back $/STB	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	59	0	0	59	0	5	0	9.0	15	2	14.35	37	31.15	0	0	0	37	36
2017	0	173	0	0	173	0	16	0	9.0	47	6	15.16	105	30.34	0	0	0	105	97
2018	0	163	0	0	163	0	15	0	9.0	48	6	16.33	95	29.17	0	0	0	95	80
2019	0	153	0	0	153	0	14	0	9.0	49	5	17.59	86	27.91	0	0	0	86	65
2020	0	144	0	0	144	0	13	0	9.0	50	5	18.95	77	26.55	0	0	0	77	53
2021	0	136	0	0	136	0	12	0	9.0	50	5	20.43	68	25.07	0	0	0	68	43
2022	0	128	0	0	128	0	11	0	9.0	52	5	22.02	60	23.48	0	0	0	60	34
2023	0	120	0	0	120	0	11	0	9.0	53	5	23.75	52	21.75	0	0	0	52	27
2024	0	113	0	0	113	0	10	0	9.0	54	4	25.62	45	19.88	0	0	0	45	21
2025	0	106	0	0	106	0	10	0	9.0	55	4	27.65	38	17.85	0	0	0	38	16
2026	0	100	0	0	100	0	9	0	9.0	56	4	29.84	31	15.66	0	0	0	31	12
2027	0	94	0	0	94	0	8	0	9.0	57	4	32.22	25	13.28	0	0	0	25	9
2028	0	89	0	0	89	0	8	0	9.0	58	4	34.79	19	10.71	0	0	0	19	6
2029	0	83	0	0	83	0	8	0	9.0	59	4	37.57	13	7.93	0	0	0	13	4
2030	0	79	0	0	79	0	7	0	9.0	60	3	40.59	8	4.91	0	0	0	8	2
SUB	0	1740	0	0	1740	0	157	0	9.0	760	65		758		0	0	0	758	507
REM	471	74	0	0	74	0	7	0	9.0	62	3		2		0	0	471	-469	-114
TOT	471	1814	0	0	1814	0	163	0	9.0	822	69		761		0	0	471	290	393

NET PRESENT VALUE (-M$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	761	611	544	507	475	433	378
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	471	228	150	115	88	59	32
Future Net Revenue .	290	382	394	393	387	374	347

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/STB)	10.83
NPV @ 5.0% ($/STB)	10.54

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			9.0	49.1	41.9	.0	16.0

Table 4b

EVALUATION OF: Chubut, Argentina
============== Total Proved Plus Probable

ERGO v7.43 P2 ENERGY SOLUTIONS TOTAL
GLOBAL : 03-OCT-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016
RUN DATE: 6-OCT-2016 TIME: 9:39
FILE:

EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TOTAL CAPITAL COSTS - 577 -M$-
TOTAL ABANDONMENT - 1615 -M$-

Oil STB

Year	# of Wells	Price $/STB	Pool STB/D	Pool Vol	Company Share Gross	Company Share Net
2016	7	50.00	14.9	1815	1815	1652
2017	13	50.00	19.9	7277	7277	6622
2018	13	50.00	18.8	6848	6848	6232
2019	19	50.00	172.5	62979	62979	57311
2020	24	50.00	152.9	55815	55815	50792
2021	24	50.00	135.6	49487	49487	45034
2022	24	50.00	120.3	43897	43897	39947
2023	24	50.00	106.7	38958	38958	35451
2024	24	50.00	94.8	34591	34591	31478
2025	24	50.00	84.2	30731	30731	27965
2026	24	50.00	74.8	27316	27316	24858
2027	24	50.00	66.6	24296	24296	22109
2028	24	50.00	59.2	21622	21622	19676
2029	24	50.00	52.8	19255	19255	17522
2030	24	50.00	47.0	17159	17159	15615
SUB				442047	442047	402263
REM				49462	49462	45010
TOT				491509	491509	447273

= P/T = ==================== COMPANY SHARE FUTURE NET REVENUE ====================

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties Crown -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/BOE	FR After Roy&Oper -M$-	Net back $/BOE	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	91	0	0	91	0	8	0	9.0	15	3	9.88	65	35.62	0	0	0	65	64
2017	0	364	0	0	364	0	33	0	9.0	87	12	13.59	232	31.91	0	0	0	232	214
2018	312	342	0	0	342	0	31	0	9.0	88	12	14.62	211	30.88	0	312	0	-101	-85
2019	265	3149	0	0	3149	0	283	0	9.0	243	110	5.61	2512	39.89	0	265	0	2247	1715
2020	0	2791	0	0	2791	0	251	0	9.0	378	100	8.55	2062	36.95	0	0	0	2062	1431
2021	0	2474	0	0	2474	0	223	0	9.0	385	90	9.61	1776	35.89	0	0	0	1776	1120
2022	0	2195	0	0	2195	0	198	0	9.0	393	82	10.81	1523	34.69	0	0	0	1523	873
2023	0	1948	0	0	1948	0	175	0	9.0	401	74	12.18	1298	33.32	0	0	0	1298	677
2024	0	1730	0	0	1730	0	156	0	9.0	409	67	13.75	1098	31.75	0	0	0	1098	520
2025	0	1537	0	0	1537	0	138	0	9.0	417	61	15.54	921	29.96	0	0	0	921	397
2026	0	1366	0	0	1366	0	123	0	9.0	425	55	17.58	763	27.92	0	0	0	763	299
2027	0	1215	0	0	1215	0	109	0	9.0	434	50	19.91	622	25.59	0	0	0	622	221
2028	0	1081	0	0	1081	0	97	0	9.0	443	45	22.56	496	22.94	0	0	0	496	161
2029	0	963	0	0	963	0	87	0	9.0	451	41	25.58	384	19.92	0	0	0	384	113
2030	0	858	0	0	858	0	77	0	9.0	460	37	29.01	283	16.49	0	0	0	283	76
SUB	577	22102	0	0	22102	0	1989	0	9.0	5029	838		14246		0	577	0	13668	7796
REM	1615	2473	0	0	2473	0	223	0	9.0	1764	110		376		0	0	1615	-1239	-225
TOT	2192	24575	0	0	24575	0	2212	0	9.0	6793	948		14622		0	577	1615	12430	7571

==================== NET PRESENT VALUE (-M$-) ====================

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	14622	10848	9233	8347	7582	6616	5372
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	577	516	484	465	446	420	382
Abandonment Costs ..	1615	695	427	311	228	144	69
Future Net Revenue .	12430	9636	8322	7571	6908	6051	4921

==================== COMPANY SHARE ====================

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			9.0	31.5	59.5	2.3	50.6

==================== PROFITABILITY ====================

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	999.9
Profit Index (undisc.)	5.7
(disc. @ 10.0%) .	9.8
(disc. @ 5.0%) .	8.0
First Payout (years)	.3
Total Payout (years)	3.0
Cost of Finding ($/BOE)	4.46
NPV @ 10.0% ($/BOE)	15.40
NPV @ 5.0% ($/BOE)	19.61

Table 4c

EVALUATION OF: Chubut, Argentina - Proved Plus Probable Developed Producing

ERGO V7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 03-OCT-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
RUN DATE: 6-OCT-2016 TIME: 9:51
FILE: OarRA1.DAX

WELL/LOCATION - Alberto and Don Ernesto 13 Wells (Cretatious Sand)
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 81321 STB
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 875 -M$- (2034)
NOTE: ECONOMIC LIMIT OCCURS IN 2034

INTEREST

AVG WI 100.0000%

ROYALTIES/TAXES

STATE + AVG GR 9.00%

Oil STB

Year	# of Wells	Price $/STB	Pool STB/D	Pool Vol	Company Share Gross	Company Share Net
2016	7	50.00	55.0	1815	1815	1652
2017	13	50.00	72.8	7277	7277	6622
2018	13	50.00	68.5	6848	6848	6232
2019	13	50.00	64.4	6444	6444	5864
2020	13	50.00	60.6	6064	6064	5519
2021	13	50.00	57.1	5707	5707	5193
2022	13	50.00	53.7	5371	5371	4887
2023	13	50.00	50.5	5054	5054	4599
2024	13	50.00	47.6	4756	4756	4328
2025	13	50.00	44.8	4476	4476	4073
2026	13	50.00	42.1	4212	4212	3833
2027	13	50.00	39.6	3964	3964	3607
2028	13	50.00	37.3	3730	3730	3395
2029	13	50.00	35.1	3510	3510	3195
2030	13	50.00	33.0	3304	3304	3006
SUB				72533	72533	66005
REM				8788	8788	7997
TOT				81321	81321	74002

= P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/STB	FR After Roy&Oper -M$-	Net back $/STB	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	91	0	0	91	0	8	0	9.0	15	3	9.88	65	35.62	0	0	0	65	64
2017	0	364	0	0	364	0	33	0	9.0	87	12	13.59	232	31.91	0	0	0	232	214
2018	0	342	0	0	342	0	31	0	9.0	88	12	14.62	211	30.88	0	0	0	211	178
2019	0	322	0	0	322	0	29	0	9.0	90	11	15.74	192	29.76	0	0	0	192	146
2020	0	303	0	0	303	0	27	0	9.0	92	11	16.95	173	28.55	0	0	0	173	120
2021	0	285	0	0	285	0	26	0	9.0	94	10	18.25	156	27.25	0	0	0	156	98
2022	0	269	0	0	269	0	24	0	9.0	96	10	19.67	139	25.83	0	0	0	139	80
2023	0	253	0	0	253	0	23	0	9.0	98	10	21.20	123	24.30	0	0	0	123	64
2024	0	236	0	0	238	0	21	0	9.0	100	9	22.86	108	22.64	0	0	0	108	51
2025	0	224	0	0	224	0	20	0	9.0	102	9	24.65	93	20.85	0	0	0	93	40
2026	0	211	0	0	211	0	19	0	9.0	104	8	26.59	80	18.91	0	0	0	80	31
2027	0	198	0	0	198	0	18	0	9.0	106	8	28.69	67	16.81	0	0	0	67	24
2028	0	187	0	0	187	0	17	0	9.0	108	8	30.97	54	14.53	0	0	0	54	18
2029	0	176	0	0	176	0	16	0	9.0	110	7	33.43	42	12.07	0	0	0	42	12
2030	0	165	0	0	165	0	15	0	9.0	112	7	36.10	31	9.40	0	0	0	31	8
SUB	0	3627	0	0	3627	0	326	0	9.0	1399	136		1765		0	0	0	1765	1148
REM	875	439	0	0	439	0	40	0	9.0	343	20		37		0	0	875	-837	-167
TOT	875	4066	0	0	4066	0	366	0	9.0	1742	156		1803		0	0	875	928	981

NET PRESENT VALUE (-M$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	1803	1416	1249	1157	1077	976	844
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	875	385	239	176	130	83	41
Future Net Revenue .	928	1031	1009	981	947	893	803

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			9.0	46.7	44.3	.0	22.8

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/STB)	12.07
NPV @ 5.0% ($/STB)	12.67

Chapman Petroleum Engineering Ltd.

Table 4d

EVALUATION OF: Chubut, Argentina - Probable Developed Non-Producing

ERGO v7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 03-OCT-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-JAN-2019
RUN DATE: 6-OCT-2016 TIME: 9:35
FILE: OarRC2.DAX

WELL/LOCATION - Alberto and Don Ernesto 11 Workovers (Cret. Sand)
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 410188 STB
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL
TOTAL CAPITAL COSTS - 577 -M$-
TOTAL ABANDONMENT - 740 -M$- (2035)
NOTE: ECONOMIC LIMIT OCCURS IN 2035

INTEREST

AVG WI 100.0000%

ROYALTIES/TAXES

STATE + AVG GR 9.00%

Oil STB

Year	# of Wells	Price $/STB	Pool STB/D	Pool Vol	Company Share Gross	Company Share Net
2016	0	50.00	.0	0	0	0
2017	0	50.00	.0	0	0	0
2018	0	50.00	.0	0	0	0
2019	6	50.00	154.9	56535	56535	51446
2020	11	50.00	136.3	49750	49750	45273
2021	11	50.00	119.9	43780	43780	39840
2022	11	50.00	105.6	38527	38527	35059
2023	11	50.00	92.9	33904	33904	30852
2024	11	50.00	81.7	29835	29835	27150
2025	11	50.00	71.9	26255	26255	23892
2026	11	50.00	63.3	23104	23104	21025
2027	11	50.00	55.7	20332	20332	18502
2028	11	50.00	49.0	17892	17892	16282
2029	11	50.00	43.1	15745	15745	14328
2030	11	50.00	38.0	13856	13856	12609
SUB				369514	369514	336258
REM				40674	40674	37013
TOT				410188	410188	373271

\- P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/STB	FR After Roy&Oper -M$-	Net back $/STB	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	0	0	0	0	0	0	.0	0	0	.00	0	.00	0	0	0	0	0
2017	0	0	0	0	0	0	0	0	.0	0	0	.00	0	.00	0	0	0	0	0
2018	312	0	0	0	0	0	0	0	.0	0	0	.00	0	.00	0	312	0	-312	-262
2019	265	2827	0	0	2827	0	254	0	9.0	153	99	4.45	2321	41.05	0	265	0	2055	1569
2020	0	2488	0	0	2488	0	224	0	9.0	286	89	7.53	1889	37.97	0	0	0	1889	1311
2021	0	2189	0	0	2189	0	197	0	9.0	291	80	8.48	1621	37.02	0	0	0	1621	1022
2022	0	1926	0	0	1926	0	173	0	9.0	297	72	9.58	1384	35.92	0	0	0	1384	794
2023	0	1695	0	0	1695	0	153	0	9.0	303	64	10.84	1175	34.66	0	0	0	1175	613
2024	0	1492	0	0	1492	0	134	0	9.0	309	58	12.30	990	33.20	0	0	0	990	469
2025	0	1313	0	0	1313	0	118	0	9.0	316	52	13.99	827	31.51	0	0	0	827	356
2026	0	1155	0	0	1155	0	104	0	9.0	322	46	15.94	683	29.56	0	0	0	683	268
2027	0	1017	0	0	1017	0	91	0	9.0	328	42	18.20	555	27.30	0	0	0	555	198
2028	0	895	0	0	895	0	81	0	9.0	335	37	20.81	442	24.69	0	0	0	442	143
2029	0	787	0	0	787	0	71	0	9.0	342	34	23.82	341	21.68	0	0	0	341	100
2030	0	693	0	0	693	0	62	0	9.0	348	30	27.32	252	18.18	0	0	0	252	67
SUB	577	18476	0	0	18476	0	1663	0	9.0	3630	702		12480		0	577	0	11903	6648
REM	740	2034	0	0	2034	0	183	0	9.0	1421	90		339		0	0	740	-401	-58
TOT	1318	20509	0	0	20509	0	1846	0	9.0	5051	793		12820		0	577	740	11502	6590

NET PRESENT VALUE (-M$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	12820	9432	7985	7190	6504	5640	4528
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	577	516	484	465	446	420	382
Abandonment Costs ..	740	310	188	135	98	61	29
Future Net Revenue .	11502	8606	7313	6590	5960	5159	4118

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			9.0	28.5	62.5	2.8	56.1

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	782.3
Profit Index (undisc.)	8.7
(disc. @ 10.0%) ..	11.0
(disc. @ 5.0%) .	10.4
First Payout (years)	2.5
Total Payout (years)	2.9
Cost of Finding ($/BOE)	3.21
NPV @ 10.0% ($/STB)	16.07
NPV @ 5.0% ($/STB)	20.98

Company Block

Area of Interest

ZENITH ENERGY LTD.

COMPANY BLOCK

IMISHLI AREA, ARAN E.R., AZERBAIJAN

ORIENTATION MAP

APR. 2016 **JOB No. 6222**

MURADKHANLI, JAFARLI AND ZARDAB FIELDS

LOWER KURA REGION, AZERBAIJAN

INDEX

Discussion

Table 4: Summary of Company Reserves and Economics

Consolidated Cash Flows

a) Total Proved Developed Producing
b) Total Proved
c) Total Proved Plus Probable Developed Producing
d) Total Proved Plus Probable Developed
e) Total Proved Plus Probable

Appendix A – Site Visit

MURADKHANLI, JAFARLI AND ZARDAB FIELDS
LOWER KURA REGION, AZERBAIJAN
DISCUSSION

Property Description

The Company holds a twenty five year Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) with the State Oil Company of Azerbaijan Republic (SOCAR) covering 642 square kilometers or 248 square miles which include the active Muradkhanli, Jafarli and Zardab oil fields located in the Lower Kura Region, about 300 kilometers inland from the city of Baku, Azerbaijan.

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

On June 14, 2016, the Company received notice of ratification from the Parliament of the Republic of Azerbaijan of the REDPSA granting the Company the rights and obligations for an 80% participating interest in current and future production, as well as acknowledging, Aran Oil Operating Company Ltd. (Aran), an 80% owned subsidiary of Zenith Aran, as operator of the REDPSA. This ratification has transformed the REDPSA into a law of the country, which has been signed by the President of the Republic of Azerbaijan on June 24, 2016.

The REDPSA, executed on March 16, 2016 between SOCAR, Zenith Aran and SOCAR Oil Affiliate ("SOA"), a 100% owned subsidiary of SOCAR, became effective on August 11, 2016, making the Company's rights and obligations under the REDPSA binding law in Azerbaijan.

The handover of production operations from SOCAR to Aran Oil Operating Company Ltd. was also completed on August 11, 2016. There was no interruption of oil production.

A summary of the main terms of the REDPSA are presented below.

The Company has the obligation to carry all costs and expenditures attributable to SOA's participating interest from the Effective Date until oil production from the Contract Redevelopment Area (CRA) has exceeded two times the average daily rate in 2015, of about 310 STB/d, for four consecutive calendar quarters. The carried amount will be reimbursed from a portion of the Crude Oil produced from the CRA over and above the level defined as Compensatory Petroleum. The Contractor shall pay to SOCAR Compensatory Petroleum amounting to five percent of production for the first twelve months after the Effective Date and fifteen percent during the second and subsequent years until the delivery of a maximum of 45,000 tons (approximately 315,000 STB) of Crude Oil, after which no further Compensatory Petroleum is required.

Any associated natural gas shall be delivered to SOCAR free of charge.

Within 150 days of the Effective Date of the agreement, that is by November 17, 2016, the Contractor is required to submit to SOCAR a draft Rehabilitation and Production Program which will increase production from the 2015 average daily production of about 310 STB/d from the REDPSA area by 1.5 times, that is to about 465 STB/d, within two years from the date of SOCAR's approval of said Rehabilitation and Production Program. Failure to submit a Program or failure to achieve the production target gives SOCAR the right to terminate the REDPSA.

The term of the agreement is twenty-five years from the date of SOCAR's approval of the Contractor's Rehabilitation and Production Program which is anticipated to occur near the end of 2016. An additional five year extension may be approved by SOCAR, but this possible extension is not certain and is not evaluated in this report. The agreement is presumed to terminate at the end of 2041.

Cost Recovery

The Contractor can recover its costs out of total production of petroleum after payment of Compensatory Petroleum as follows:

- one hundred percent of operating costs,
- all capital costs, including interest, from a maximum of fifty percent of production remaining after recovery of operating costs. Unrecovered costs can be carried forward as required until fully recovered.

Profit Petroleum Share

Profit Petroleum remaining after cost recovery shall be shared between the Contractor and SOCAR using the R-factor model. The Contractor share begins at 55 percent when $R < 1.25$, declines to a low of 25 percent when $2.5 < R < 2.75$ and goes up to 80 percent when $2.75 < R$. Additional details are provided in Table 1.

<u>Other Factors</u>

The Contractor has the use, at no cost, of all production facilities, buildings, etc. related to the operation of the oil fields however SOCAR shall retain ownership of such fixed assets. The ownership of vehicles has been transferred to the contractor.

A Joint Operating Company, Aran Oil Operating Company Ltd., has been established to carry out operations in the field. The Joint Operating Company will employ the personnel of Muradkanlineft Amalgamated Oil Field (AOF). The staff of the AOF may be supplemented by other personnel including non citizens of the Republic of Azerbaijan, although preference must be given to Azerbaijani citizens who are fully qualified for any position. Expatriates may make up a maximum of thirty percent of the professional staff until five years after the Effective Date and a maximum of ten percent thereafter.

The Company also has rights to a Contract Exploration Area. The Contract Exploration Area has the same surface area and location as the Contract Rehabilitation Area but includes only petroleum resources that may be discovered as a result of implementation of the RESPSA. Since no reserves can be attributed to this interest at this time, the potential of the Contract Exploration Area is not evaluated in this report.

A map showing the field location is presented on the Orientation Map, an overview of the wells and field is shown on Figure 1, while a description of the interests and burdens is shown in Table 1.

Exploration History

Azerbaijan has been at the forefront of the petroleum industry since oil and gas production commenced along the Caspian Sea in 1848. Active exploration of the offshore areas of Azerbaijan began in the 1950s and resulted in the discovery of many large oil and gas fields as shown on the Oil and Gas Field Map illustrated in Figure 2a. To date more than 65 fields have been discovered in Azerbaijan with the largest productive complex being the offshore ACG fields. These fields began significant production in 1997 and have reserves of 5-6 billion barrels of oil with about half that amount already produced. The Shah Deniz Field also located offshore in the Caspian Sea was discovered in 1999 and is one of the largest gas-condensate fields in the world with reserves of up to 40 TCF. Oil and condensate from these fields is exported via the BTC pipeline which runs for

1100 miles from the capital of Azerbaijan, Baku located on the Caspian Sea, an isolated interior sea, to tidewater at T'bilisi, Georgia located on the Black Sea. This pipeline was completed in 2005.

Gravity, magnetic and seismic surveys were carried out in and around the Company land in the 1960s. Several structures were designated for exploratory drilling and the Muradkhanli Field was discovered in 1971 in an unconventional Upper Cretaceous volcanic reservoir and brought on production in 1972. The volcanic reservoir zone has produced over 16 million barrels of oil to date. In 1973 oil was discovered in the sedimentary Eocene section on the flanks of the structure and placed on production in 1975. This zone has produced over 1.6 million barrels of oil to date. Two additional smaller pools were discovered in the 1980s. The Jafarli Field is located southeast of the Muradkhanli Field and was discovered and placed on production in 1984 from the Eocene section and has produced over 1.73 million barrels of oil. The Zardab Field is located northwest of the Muradkhanli Field and was discovered and placed on production in 1981 from the Maykop Formation but has only had minimal production due to sand control problems.

Geology

Azerbaijan, one of five countries that border on the Caspian Sea, is a very prolific oil and gas province with hundreds of producing fields, as shown on the map illustrated in Figure 2a. The Caspian Sea is a hypersaline interior sea now approximately 25 m below sea level. The regional geology of this area is illustrated in Figure 2b. The Company block is located onshore in the Republic of Azerbaijan within the Kura Basin. This basin is an intermontane basin located between the Greater Caucasus Orogenic Belt to the north and the Lesser Caucasus Accretionary Complex to the south and merges with the South Caspian Basin to the east.

The geological setting of the Company block is shown in greater detail in Figures 2c & 2d, a geological map and legend of Azerbaijan prepared by the National Academy of Sciences of Azerbaijan. It can be seen that the block is located in the central interior of the country within the valley of the Kura River and almost equidistant between the Greater and Lesser Caucasus mountain belts to the northeast and southwest respectively.

A schematic stratigraphic column of the Muradkhanli Field, the major oil field on the Company block, is illustrated in Figure 2e showing approximately 4000 m of Cenozoic sedimentary deposits. Basement consists of fractured and weathered volcanics which can form petroleum reservoirs in structural traps in this area. Other productive units consist of the interbedded carbonates and sandstones of the Eocene as well as sandstones of the Miocene Chokrak Formation.

The style of structural trapping of oil reservoirs of the Company block is illustrated in Figure 2f. The major Upper Cretaceous volcanics pool is unconformity trapped at the apex of a faulted dome as also seen in Figure 1 and called Muradkhanli Pool 1. Another weathered and fractured upper volcanics zone has trapped oil on the western flank of this dome. This is divided by an east-west trending fault into Muradkhanli Pool 2 & 3. There is an extensive stratigraphic trap in the Eocene sandstones interbedded in the thick Eocene marl section on the flanks of the structure. In Figure 1, this is shown as the Muradkhanli North, South and South East pools. A small oil pool is found in the Chokrak sandstones, draped over the domal structure.

Work Program

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

The Company intends to purchase one modern workover rig to optimize the completion and workover of the wells. This program will begin by using the existing workover rig in the field. Additional equipment may be leased or contracted as required to optimize the field redevelopment. In addition to the marginal producing wells, five non-producing wells completed in the Maykop zone in the Zardab field are expected to be worked over in 2019 and to be returned to production after wellbore and sand production problems have been resolved. Depending on the results of the program, the Zardab field may be more fully developed, but possible new drilling in Zardab is not evaluated in this report.

The Company intends to acquire a modern drilling rig capable of drilling to 4,500 m to carry out the fifteen year drilling program. It is estimated that five new wells will be drilled in 2019 and ten wells in each year until the anticipated drilling program is completed in 2033. A five year extension to the contract is possible but not certain. In total, 145 development wells are expected to be drilled, of these, 58 will be horizontal wells in the Mid Eocene. It is expected that additional rigs will be leased or contracted at some periods to meet the proposed drilling schedule.

The existing gathering system and central facilities appear to be adequate to handle increased production from the workovers. An analysis of the gathering system and facilities will commence concurrently with the preparation of the Rehabilitation and Production Program, to expand and modernize the surface facilities in anticipation of field production rates (proved plus probable) reaching a rate of 2,517 STB/d in 2020 and a peak rate of about 13,693 STB/d in 2033. It is anticipated that an upgrade to the facilities and gathering system will take place in 2019 as rates increase. Production rates will decline in the final eight years of the Contract after development drilling has been completed.

Annual work programs and budgets must be prepared for SOCAR's approval.

Reserves

Total proved plus probable light and medium oil reserves of 75,969 MSTB have been estimated for this property. In the 25 year contract period being evaluated in this report, it is predicted that 70,360 MSTB will be recovered. All unrecovered oil is in the probable undeveloped category. A five year extension to the contract is permitted, but this extension is not certain and has not been included in this report.

The reserves reported below are reserves predicted to be recovered within the 25 year contract period.

Proved developed producing light and medium oil reserves of 738 MSTB have been estimated for 64 wells producing from the Block, based on a conservative decline curve analysis of the production history of these wells combined.

Total proved undeveloped light and medium oil reserves of 6,090 MSTB have been estimated for 33 locations which are between or directly offset productive wells. These locations have been identified after careful consideration of recoveries to date and correlations of recovery factors with associated drainage areas of existing wells, which indicate the presence of unrecovered oil in stepout locations. Proved reserves have been assigned based on average recoveries from existing wells, reduced by one third, for each respective accumulation.

Total probable light and medium oil reserves of 63,549 MSTB are forecast to be recovered during the 25 year contract period.

Probable additional developed producing oil reserves of 209 MSTB have been estimated for the same 64 wells as for proved developed producing, based on a best estimate decline curve analysis of the wells' production history.

Probable developed non-producing developed oil reserves of 1,362 MSTB have been estimated for 39 wells that are producing at nominal rates and five wells that are currently shut in due to mechanical or sand problems in the well bore. These 44 wells are candidates for workovers, which are expected to restore their production rates to levels indicated by their recent past history ranging from 10 to 40 STB/d per well.

Probable additional undeveloped oil reserves of 18,458 MSTB have been estimated for the producing accumulations in the Muradkhanli and Jafarli fields for 87 undrilled locations directly offsetting existing production including incremental reserves from the 33 proved undeveloped locations, three accumulations of Volcanic Upper Cretaceous oil and one Mid Eocene accumulation south east of the Muradkhanli field and one Jafarli accumulation. These locations have been identified after careful consideration of recoveries to date and correlations of recovery factors with associated drainage areas on existing wells, which indicate the presence of unrecovered oil in stepout locations. Reserves have been assigned based on average recoveries from the existing wells for each respective accumulation.

Probable undeveloped reserves of 43,520 MSTB have been estimated for the large extensive Mid Eocene accumulation on-lapping the volcanic structure in the Muradkhanli field. This reservoir has produced hydrocarbons from several wells but recoveries were limited possibly due to swelling clays in the sand intervals from older drilling and completion technology. Reserves have been assigned on the expectation that a horizontal well development with properly designed drilling fluids will improve productivity and recoveries from this accumulation.

A third field, Zardab, located north-west of the Muradkhanli field has a structural feature and several existing wells, five of which have produced from the Maykop sand and are included in the probable developed non-producing reserves described above. There is insufficient data to support reserves for future locations for the Maykop sand or for the Upper Cretaceous. The Upper Cretaceous may have significant potential due to the structural feature but no reserves have been assigned currently due to insufficient information.

A Summary of the reserves is presented on Table 2. The wells and locations referred to are shown on the maps, Figures 3a through 3f. Production history graphs on which proved developed producing reserves are based are presented in Figures 4a through 4c showing rates per calendar day.

Production

The Muradkhanli field produces medium gravity oil from fractured and weathered Cretaceous volcanites and from Eocene carbonates with interbedded sand. The wells in the Muradkhanli field have produced over 17,000 MSTB of 27° API gravity crude oil since 1971. The Jafarli oil wells located twelve kilometers to the south of Muradkhanli have a cumulative production of over 1,750 MSTB of 27° API gravity crude oil since 1984. Five wells in the Zardab field have had only minor production volumes before sand or other problems caused wells to be shut in.

Current production from the Muradkhanli and Jafarli fields is approximately 300 STB/d from 64 active wells. It is anticipated that 39 of the less productive wells can be worked over, with 21 wells achieving rates of 15 STB/d per well and 18 wells achieving rates of 10 STB/d per well. Five inactive wells in the Zardab field are expected to be returned to production at 40 STB/d per well after wellbore and sand control issues have been resolved.

Average production for the remainder of 2016 is expected to be 276 STB per calendar day.

Full production forecasts for the development of each field are presented in Page 1 of Table 4b (Total Proved) and 4e (Total Proved Plus Probable) in the economic presentation.

Production for the Total Proved case is predicted to reach a peak rate of 1,991 STB/d in 2022 before declining until the end of commercial production in 2034. Similarly for the Proved Plus Probable case, production is expected to reach a peak rate of 13,693 STB/d in 2033 and decline until the end of the contract in 2041.

Initial rates and on production dates for wells to be worked over and locations to be drilled are presented on Table 2.

Product Prices

An average 2016 oil price of $50.50/STB has been used for this area based on researched information for the Urals Oil stream.

Operating Environment

There has been an oil industry in Azerbaijan for well over one hundred years. The Muradkhanli structure was recognized and first drilled in 1968. Commercial oil production was obtained in 1971. The field development began in 1973 with peak production occurring in 1979. The field has been in continuous operation since then with occasional additional drilling and workover activity, but generally declining rates. There is a functioning gathering system, network of roads, and central processing and storage facilities equipped to load trucks.

The area is generally dry and flat, with limited vegetation, and is sparsely populated. There is some irrigated agriculture in the area but this should be compatible with current and anticipated oil field activities. There is a modern field office to serve the fields. Major highways are nearby, and rail and pipeline terminals are about 100 km to the north on good roads.

SOA, a subsidiary of SOCAR, the national oil company, is a partner in the Contractor group and should be able to facilitate imports and complying with local regulations and practices.

No unusual difficulties are anticipated in continuing operations and increasing produced volumes.

Capital Expenditures

Total capital expenditures of $748,351,000 ($598,681,000 net to the Company) have been estimated to redevelop the oil fields in the block. Details are shown on Table 3a and are discussed below.

During the first four years of the contract it is estimated that $1,500,000 will be spent upgrading the gathering system and central facilities to improve safety, efficiency and handle higher production rates. During the same period, 39 active wells currently producing at marginal rates will be worked over at costs ranging from $25,000 to $32,000 each. In 2019 five shut in wells completed in the Maykop formation will be worked over to control sand production at an estimated cost of $150,000 each and returned to production at a total rate of 200 STB/d.

From 2020 through 2024, 3D seismic programs are expected to be run to fully delineate the various pools and formations to optimize the drilling locations. Total seismic costs are estimated to be $20,000,000.

Development drilling will commence in 2019 and continue to 2033. It has been estimated that each well in the proved case will cost $4,300,000. This cost will include the direct cost of materials, fuel, salaries, etc. to drill the well as well as an allocation for the purchase on one drilling rig, well completion and tie in. Each well in the proved plus probable case is expected to cost $5,000,000. In addition to the costs anticipated for the proved wells, wells in the proved plus probable case have an additional allocation for the periodic leasing or contracting of additional drilling rigs and expansion and modernization of the field facilities.

In all, 145 wells are expected to be drilled, 58 of these are anticipated to be horizontal wells. Most horizontal wells will have two legs of about 1,600 m each. For the purpose of estimating costs, each leg is considered to be a well with a cost of $5,000,000.

Under the terms of the REDPSA the Company and SOCAR shall, within 12 months of the Effective Date, agree to a mechanism of making contributions to an Abandonment Fund which shall not exceed 15 percent of all Capital Costs. Contributions to the Abandonment Fund can be recovered as operating costs. No specific provisions for abandonment costs are included in this evaluation but the contributions can be considered to be included within the fixed and variable operating costs.

Operating Costs

Fixed field operating costs have been estimated to be $1,000,000 per year plus $3,000 per well per month except for the total proved plus probable case, based on historical data and a detailed multi year budget prepared by the Company.

Variable costs have been estimated to be $10.00/STB in all cases except the total proved plus probable case. Currently, and in the early years of field redevelopment, crude oil will be trucked to a rail or pipeline terminal. As production rates increase it may become feasible to lay a pipeline to serve the field. If this does occur, transportation costs, and therefore variable costs, would be reduced. Other variable costs would include chemicals, power, contributions to the Abandonment Fund and other costs that may be allocated based on production.

In the total proved plus probable case, the fixed costs per month was reduced to $2,000 per well per month and the variable costs have been reduced to $5.00/STB in anticipation of the pipeline being built to market, reducing the transportation costs.

Economics

An economic summary is presented on Table 4 and the results of our economic analysis are presented on Tables 4a through 4e.

In order to properly account for the cost recovery and profit splits under the REDPSA terms (Contract Rehabilitation Area), the economic analysis is conducted for all production from the Block, combining all pools, and for accumulating reserve categories.

The evaluation for each reserve category consists of five pages. Page 1 presents the rates for each well or group of wells for each year of the forecast. The daily rates are then multiplied by the active days per year to obtain an annual production volume. The well count, total daily rate and capital expenditures, if any, are shown on the right hand side of the page.

Page 2 presents the gross annual production in barrels and shows the conversion to gross revenue by applying the oil price. The Compensatory Petroleum (similar to a royalty) is deducted. Fixed and variable operating costs are shown and escalated at 2 percent per year in all years. The remainder of Page 2 and Pages 3 and 4 apply the conditions of the Production Sharing Agreement governing Cost Recovery and the sharing of Profit Oil. See the Property Description and Table 1 for an explanation of the terms of the REDPSA. The values to this point present the position of the Contractor Group in which the Company holds an 80 percent interest.

Finally on Page 5, the position of the Company is presented in the Company Cash Flow Analysis. Values are shown before and after income tax, at discount rates of 0, 5, 10, 15 and 20 percent. The Company Net Oil Reserves are also shown on this page.

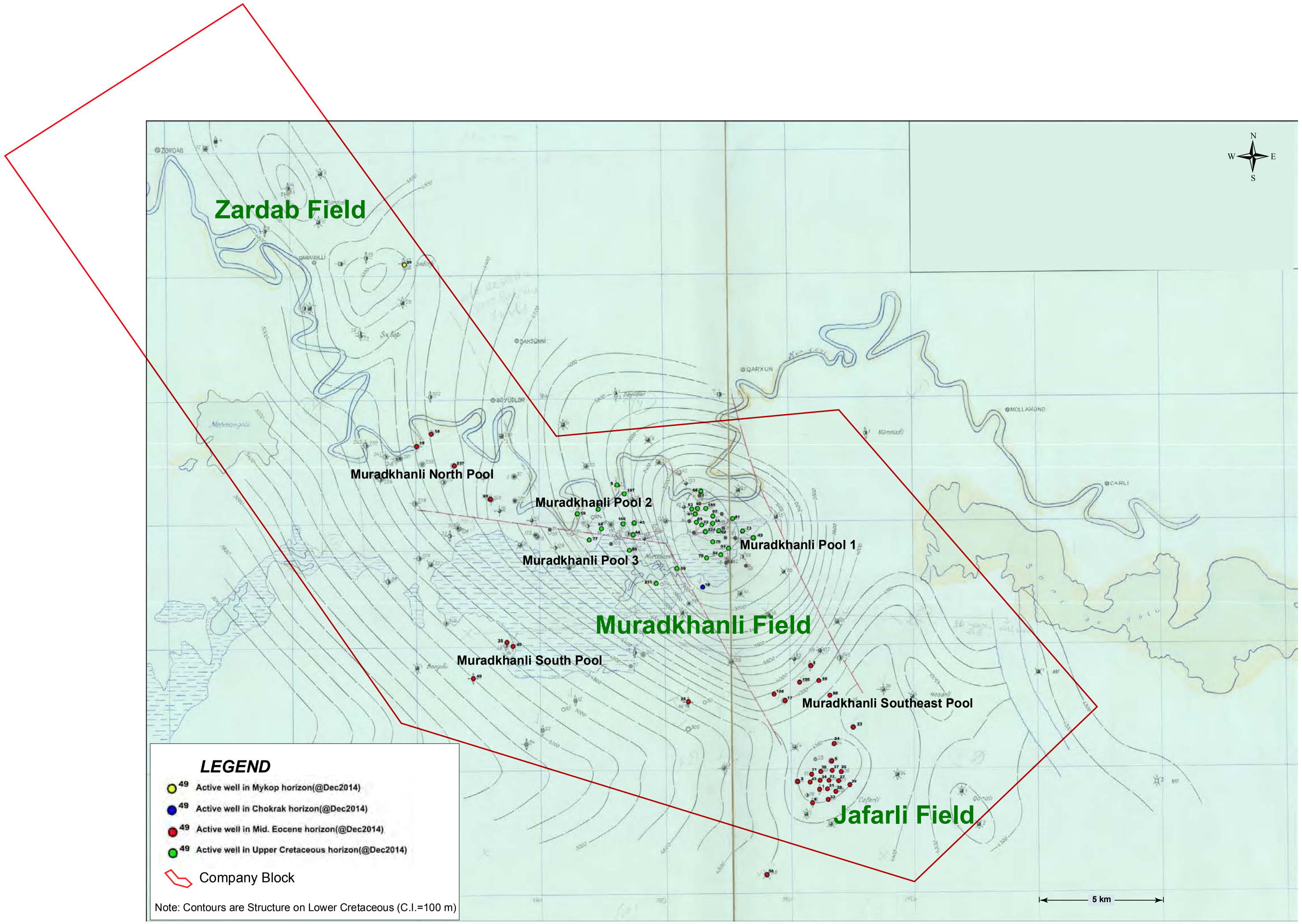
Table 4a presents the proved developed producing reserves. In this case, existing production rates are presumed to follow a conservative decline from their recent levels until the economic limit is reached.

Table 4b presents the Total Proved case, combining the proved developed producing case presented in Table 4a with the forecasts for 33 locations to be drilled which are considered to be proved undeveloped. These locations are between or closely offset productive wells and are forecast to recover two thirds of the reserves volumes which are typical for the area. Production rates peak at 1,991 STB/d in 2022 before beginning to decline to an economic limit.

Table 4c presents the proved plus probable developed producing reserves. This case evaluates the same wells and initial conditions as in Table 4a but with the most likely interpretation of the rate of decline to the economic limit for the Block.

Table 4d presents the proved plus probable developed reserves which include the reactivated wells, in which 44 existing wells are either worked over or returned to production. Production rates peak at 754 STB/d in 2020 before beginning to decline to an economic limit.

Table 4e presents all the above reserves plus the full development case in which 145 locations are drilled and placed on production. In this case, the production rate peaks at 13,693 STB/d in 2033 before beginning to decline. It is expected that the block will be on production at 4,203 STB/d when the REDPSA expires at the end of 2041 and the block is returned to SOCAR as a going concern.



ZENITH ENERGY LTD.

COMPANY BLOCK

IMISHLI AREA, ARAN E.R., AZERBAIJAN

LAND AND WELL MAP

SEP. 2016 JOB No. 6264 FIGURE No. 1

Chapman *Petroleum Engineering Ltd.*

Table 1

Schedule of Lands, Interests and Royalty Burdens
September 1, 2016

Zenith Energy Ltd.

Muradkhanli (MRX), Jafarli (JFL) and Zardab (ZRD) Oil Fields, Kura Region, Azerbaijan

			Appraised Interest		Royalty Burdens	
Description	**Rights Owned**	**Gross Sections**	**Working %**	**Royalty %**	**Basic %**	**Overriding %**
Rehabilitation, Exploration, Development and Production Sharing Agreement	[A]	248	80.0000 [1]	-	[2],[3]	
	Total	**248**				

General Notes : [1] Company has been granted rights to an 80% interest in a Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) with SOCAR, under which it must carry SOA's (SOCAR Oil Affiliate) 20% share until the end of the 4th quarter when production is more than 2 times the 2015 average of about 310 STB/d. The carried costs can be recovered from SOA's petroleum profits after that time. This report evaluates the Contract Rehabilitation Area only, not the Contract Exploration Area which is a separate part of the agreement.

[2] Contractor shall deliver at no cost to SOCAR, Compensatory Petroleum to a maximum of 45,000 tons (approx. 315,000 STB) at a rate of 5% of production for the first 12 months after the Effective Date and at a rate of 15% thereafter until the maximum is reached or the project is terminated.

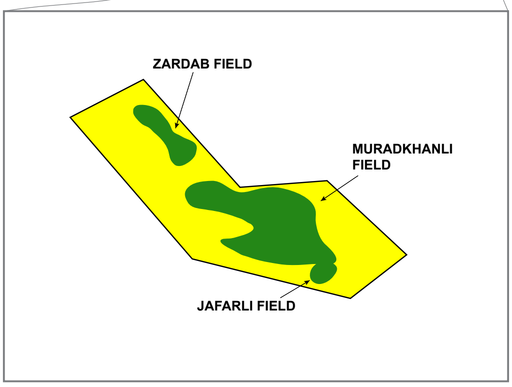
[3] Cost Recovery - Contractor is entitled to recover its costs from total production of Petroleum remaining after the delivery to SOCAR the Compensatory Petroleum in the following order:
a) 100 percent of operating costs.
b) Capital costs including interest accrued, from a maximum of 50 percent of production remaining after recovery of operating costs. Any unrecovered costs can be carried forward until fully recovered.

[4] Profit Petroleum remaining after the Cost Recovery shall be shared between contractor and SOCAR using the following R-factor model. R-factor is determined as Contractor's cumulative capital costs recovered plus Contractor's profit divided by cumulative capital costs.

R-factor	SOCAR Share (%)	Contractor Share (%)
0.00<R< 1.25	45	55
1.25<R<1.75	50	50
1.75<R<2.00	55	45
2.00<R<2.5	65	35
2.50<R<2.75	75	25
2.75<R	20	80

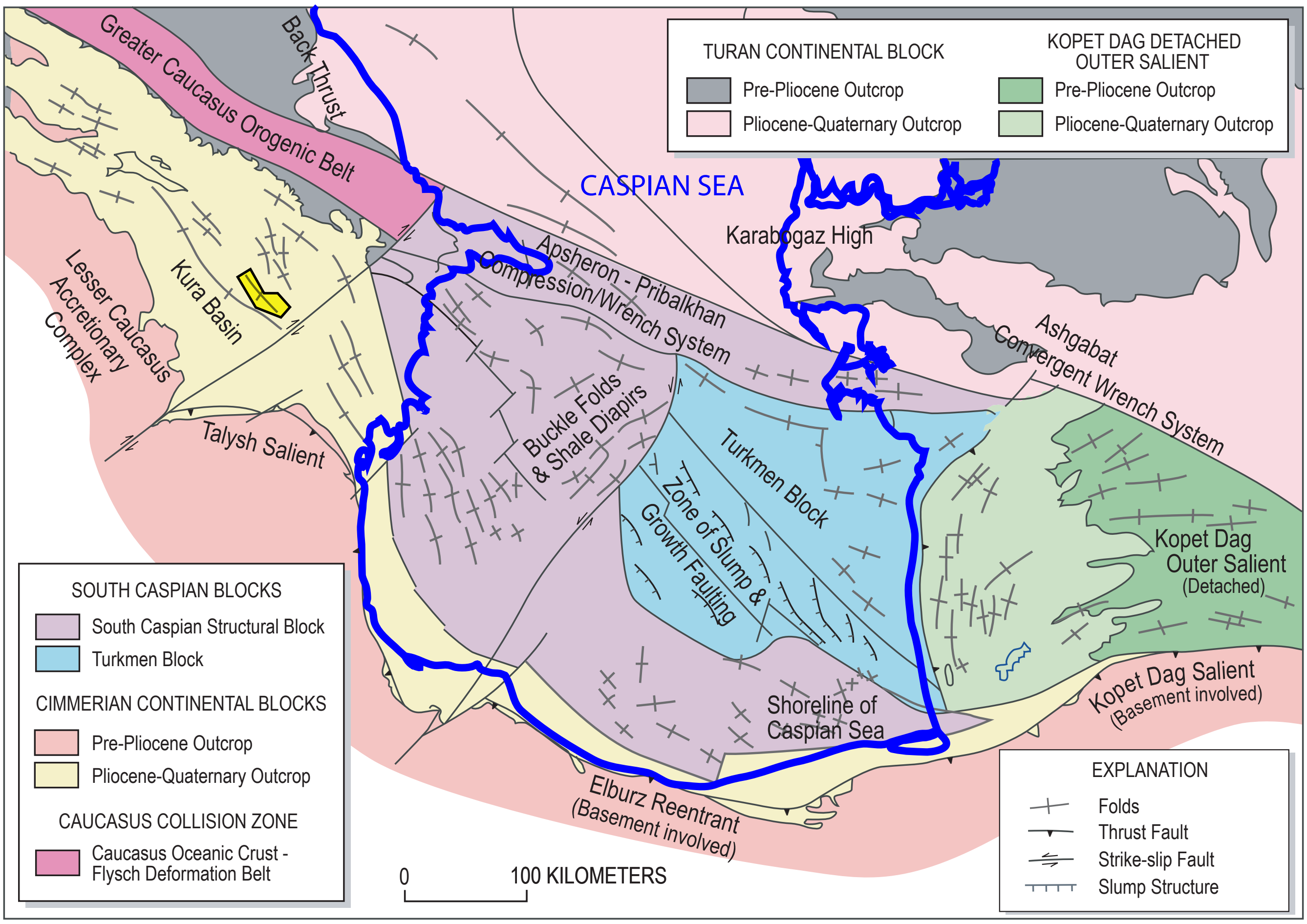
Rights Owned : [A] All subsurface reservoirs and horizons within the Contract Rehabilitation Area , all Petroleum Resources discovered by SOCAR and/or Petroleum Resources being produced by SOCAR at the Effective Date.

Source: U.S. Energy Information Administration



ZENITH ENERGY LTD.		
CASPIAN SEA REGION OIL AND GAS FIELDS MAP		
SEP. 2016	JOB No. 6264	FIGURE No. 2a

Chapman Petroleum Engineering Ltd.



Source: U.S.G.S.

Company Block

ZENITH ENERGY LTD.

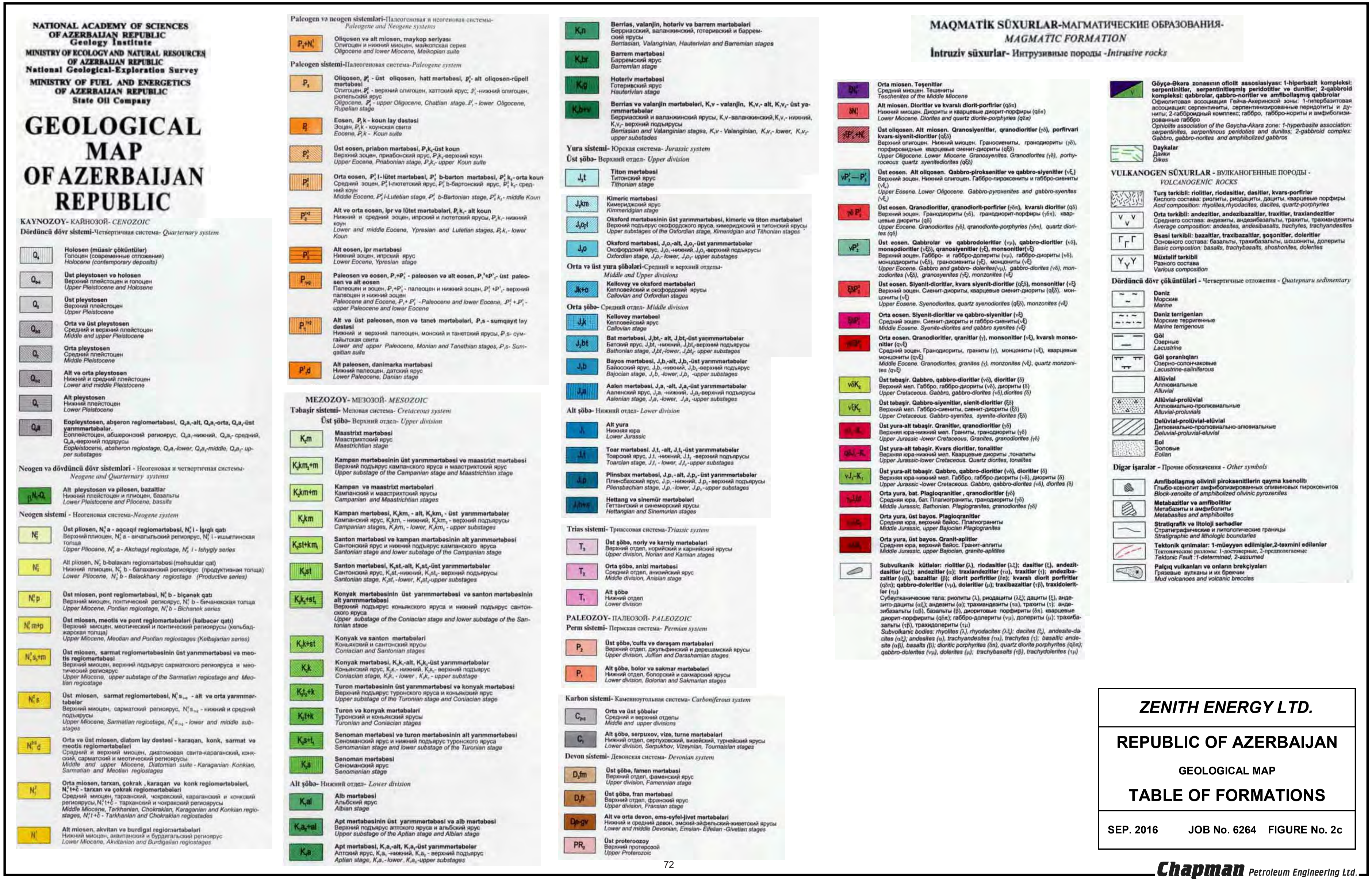
CASPIAN SEA REGION

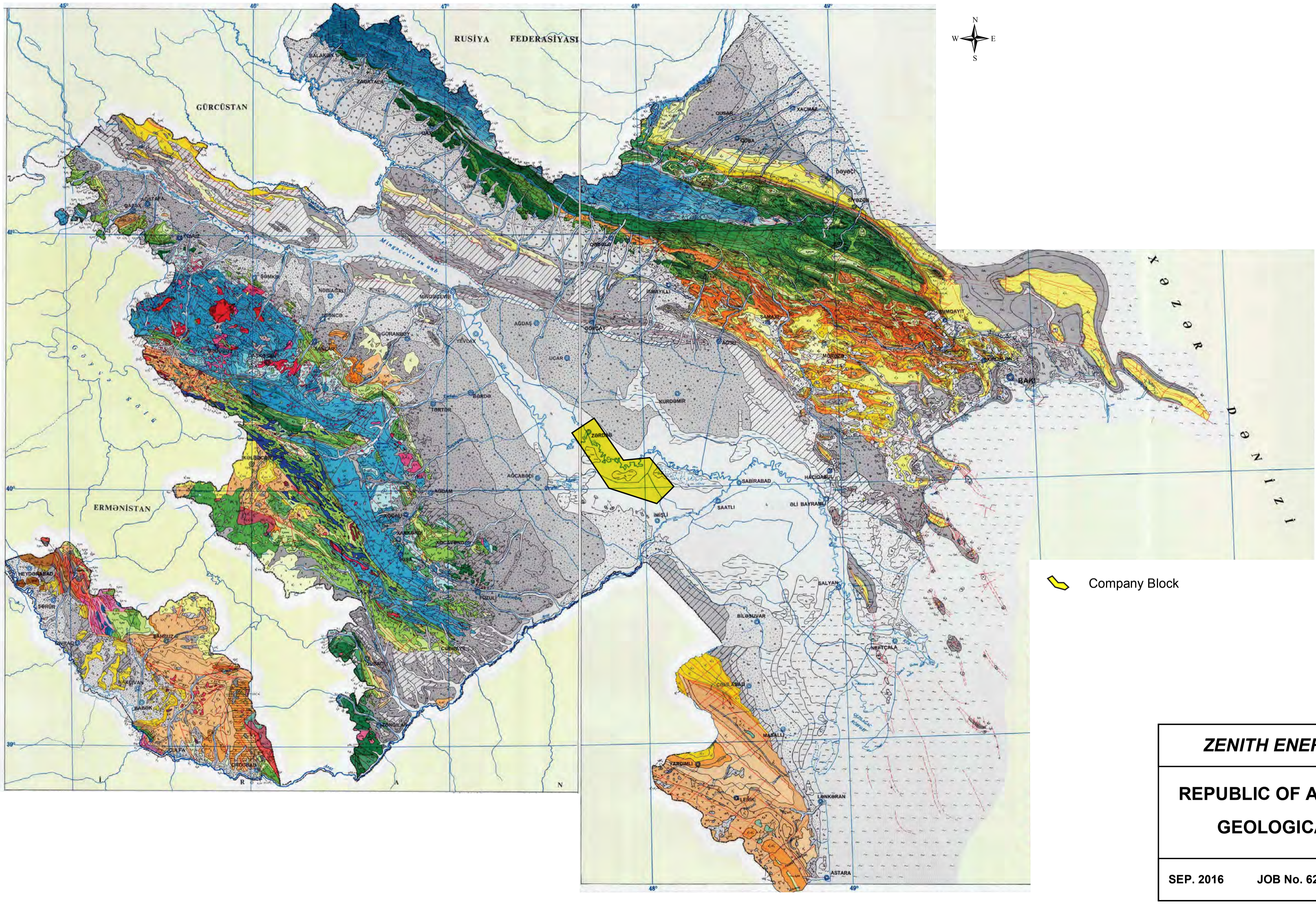
REGIONAL GEOLOGY MAP

SEP. 2016	**JOB No. 6264**	**FIGURE No. 2b**

71

Chapman Petroleum Engineering Ltd.


NATIONAL ACADEMY OF SCIENCES OF AZERBAIJAN REPUBLIC
Geology Institute
MINISTRY OF ECOLOGY AND NATURAL RESOURCES OF AZERBAIJAN REPUBLIC
National Geological-Exploration Survey
MINISTRY OF FUEL AND ENERGETICS OF AZERBAIJAN REPUBLIC
State Oil Company
GEOLOGICAL MAP OF AZERBAIJAN REPUBLIC
KAYNOZOY- КАЙНОЗОЙ- CENOZOIC
MEZOZOY- МЕЗОЗОЙ- MESOZOIC
PALEOZOY- ПАЛЕОЗОЙ- PALEOZOIC
MAQMATİK SÜXURLAR-МАГМАТИЧЕСКИЕ ОБРАЗОВАНИЯ-
MAGMATIC FORMATION
İntruziv süxurlar- Интрузивные породы -Intrusive rocks
VULKANOGEN SÜXURLAR - ВУЛКАНОГЕННЫЕ ПОРОДЫ - VOLCANOGENIC ROCKS
72
ZENITH ENERGY LTD.
REPUBLIC OF AZERBAIJAN
GEOLOGICAL MAP
TABLE OF FORMATIONS
SEP. 2016
JOB No. 6264
FIGURE No. 2c
Chapman Petroleum Engineering Ltd.



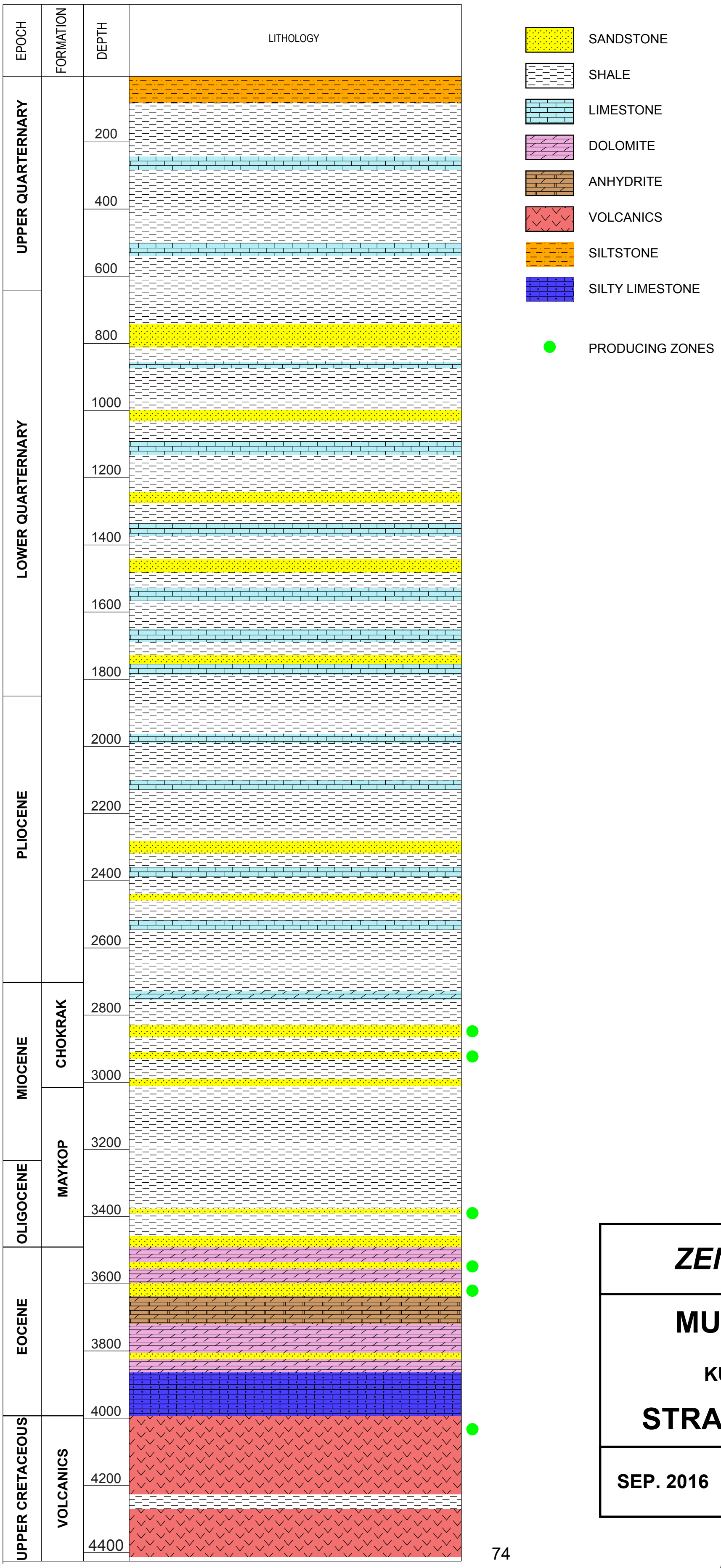
ZENITH ENERGY LTD.

REPUBLIC OF AZERBAIJAN
GEOLOGICAL MAP

SEP. 2016 JOB No. 6264 FIGURE No. 2d

Chapman Petroleum Engineering Ltd.

73



ZENITH ENERGY LTD.

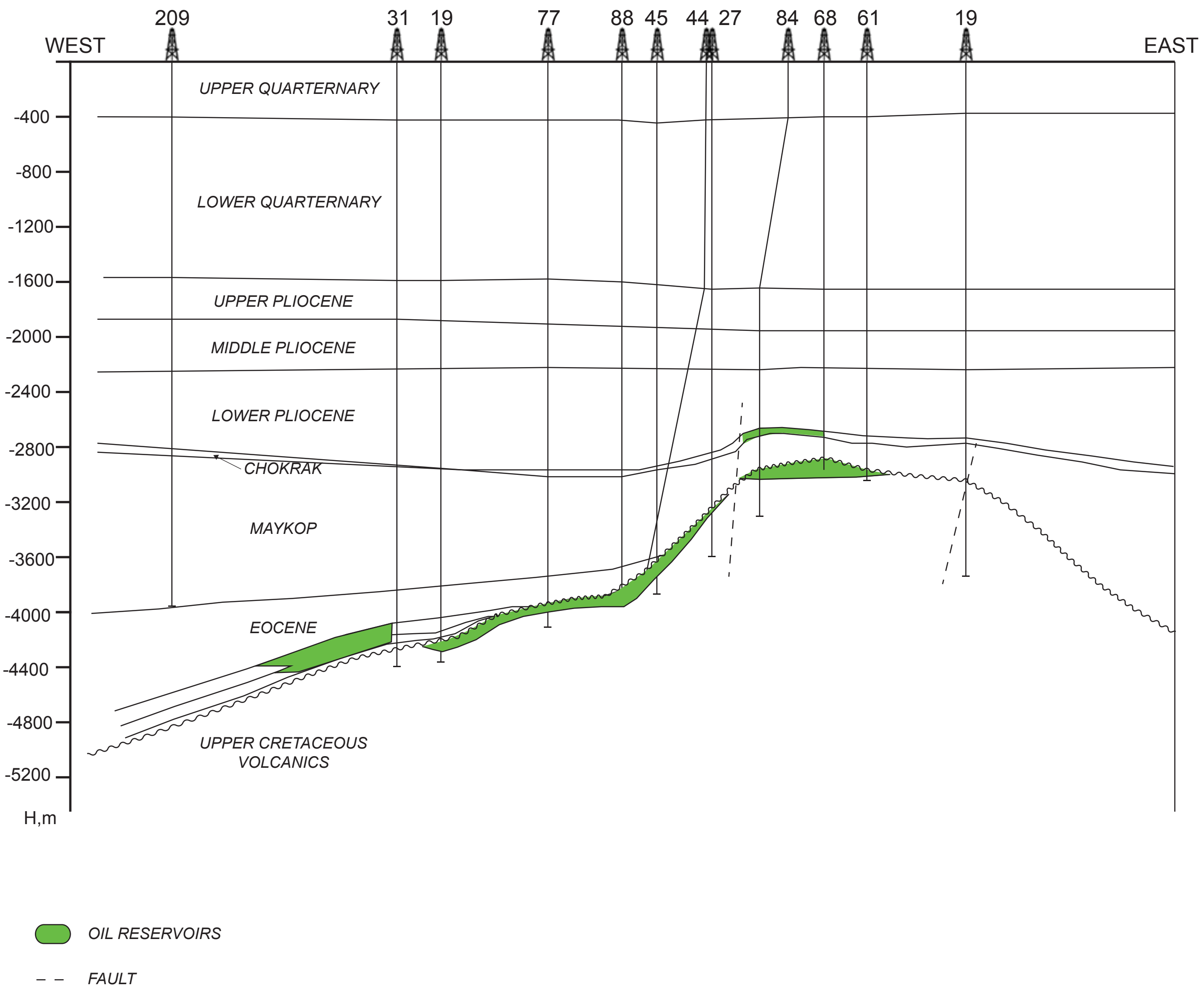
MURADKHANLI FIELD

KURA BASIN, AZERBAIJAN

STRATIGRAPHIC COLUMN

SEP. 2016 JOB No. 6264 FIGURE No. 2e

Chapman Petroleum Engineering Ltd.



ZENITH ENERGY LTD.

MURADKHANLI FIELD

KURA BASIN, AZERBAIJAN

STRUCTURAL CROSS SECTION

SEP. 2016 **JOB No. 6264** **FIGURE No. 2f**

Chapman Petroleum Engineering Ltd.

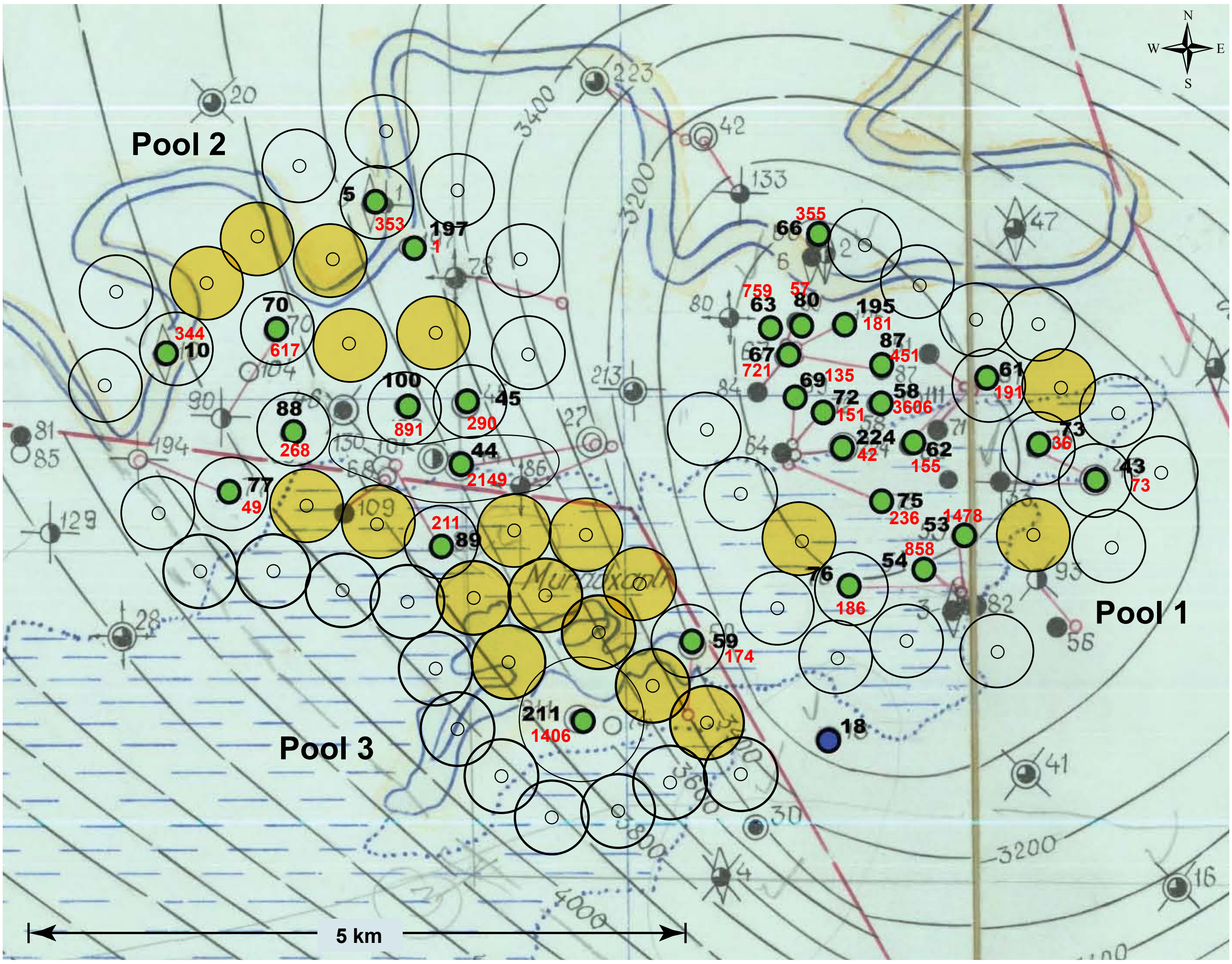
Table 2

Summary of Gross Reserves
September 1, 2016

Muradkhanli (MRX), Jafarli (JFL) and Zardab (ZRD) Oil Fields, Kura Region, Azerbaijan

Description		Current or Initial Rate STB/d		API Gravity (Deg)	Ultimate Reserves (MSTB)	Cumulative Production (MSTB)	Reserves (MSTB)	Reference
LIGHT & MEDIUM OIL								
Proved Developed Producing								
Jafarli (19 wells)	Eocene	70		27	3,603	3,411	192	Figure 4a
Muradkhanli (31 wells)	Upper Cretaceous	136		27	15,009	14,635	374	Figure 4b
Muradkhanli (14 wells)	Eocene	70		27	2,358	2,186	172	Figure 4c
Total Proved Developed Producing		276			20,970	20,232	738	
Proved Undeveloped								
Jafarli (3 wells)	Eocene	447	Jan-19 to 21	27	600	0	600	Analogy
Muradkhanli (3 wells)	Upper Cretaceous (Pool 1)	447	Jan-19 to 21	27	645	0	645	Analogy
Muradkhanli (5 wells)	Upper Cretaceous (Pool 2)	765	Jan 19 to 22	27	1,325	0	1,325	Analogy
Muradkhanli 11 wells)	Upper Cretaceous (Pool 3)	1,639	Jan 19 to 24	27	1,980	0	1,980	Analogy
Muradkhanli (11 wells)	Mid Eocene (SE Pool)	1,639	Jan 19 to 28	27	1,540	0	1,540	Analogy
	Total Proved Undeveloped				6,090	0	6,090	
	Total Proved				27,060	20,232	6,828	
Probable								
Probable Developed Producing								
Jafarli (19 wells)	Eocene (Incr.)	0		27	43	0	43	Figure 4a
Muradkhanli (31 wells)	Upper Cretaceous (Incr.)	0		27	107	0	107	Figure 4b
Muradkhanli (14 wells)	Eocene (Incr.)	0		27	59	0	59	Figure 4c
Probable Developed Non-Producing								
10 High Pot. Workovers	Upper Cretaceous	150	Jul 17	27	293	0	293	Analogy
11 High Pot. Workovers	Upper Cretaceous & Eocene	165	Jul 18	27	322	0	322	Analogy
5 Zardab Workovers	Maykop	200	Jul 19	27	396	0	396	Analogy
10 Fair Pot. Workovers	Upper Cretaceous & Eocene	100	Jul 19	27	195	0	195	Analogy
8 Fair Pot. Workovers	Upper Cretaceous & Eocene	80	Jul 20	27	156	0	156	Analogy
Probable Undeveloped								
Jafarli (12 wells)	Mid Eocene (Incr.)	1,653	Jan -19 to 28	27	3,000	0	3,000	Analogy
Muradkhanli (16 wells)	Up. Cret. (Pool 1) (Incr.)	2,353	Jan -19 to 30	27	4,675	0	4,675	Analogy
Muradkhanli (12 wells)	Up. Cret. (Pool 2) (Incr.)	2,100	Jan -19 to 29	27	3,445	0	3,445	Analogy
Muradkhanli (23 wells)	Up. Cret. (Pool 3) (Incr.)	2,386	Jan -19 to 32	27	4,230	0	4,230	Analogy
Muradkhanli (24 wells)	Mid Eocene (SE Pool) (Incr.)	2,561	Jan -19 to 33	27	3,500	0	3,500	Analogy
Muradkhanli (22 hztl wells)	Mid Eocene (North Pool)	11,000	Jan -20 to 33	27	18,480	0	18,480	Analogy
Muradkhanli (36 hztl wells)	Mid Eocene (South Pool)	18,000	Jan -20 to 33	27	30,240	0	30,240	Analogy
	Total Probable				69,141	0	69,141	
	Total Proved Plus Probable				96,201	20,232	75,969	

Note [1]: Not all undeveloped reserves will be recovered within the 25 year term of the REDPSA



Active well in Upper Cretaceous Formation

Active well in Chokrak Formation

Location

Probable estimated drainage area

PUD estimated drainage area

2 Well number

2 Cumulative production - Thousands of STB

Note: Contours are Structure on Lower Cretaceous (C.I.=100 m)

ZENITH ENERGY LTD.

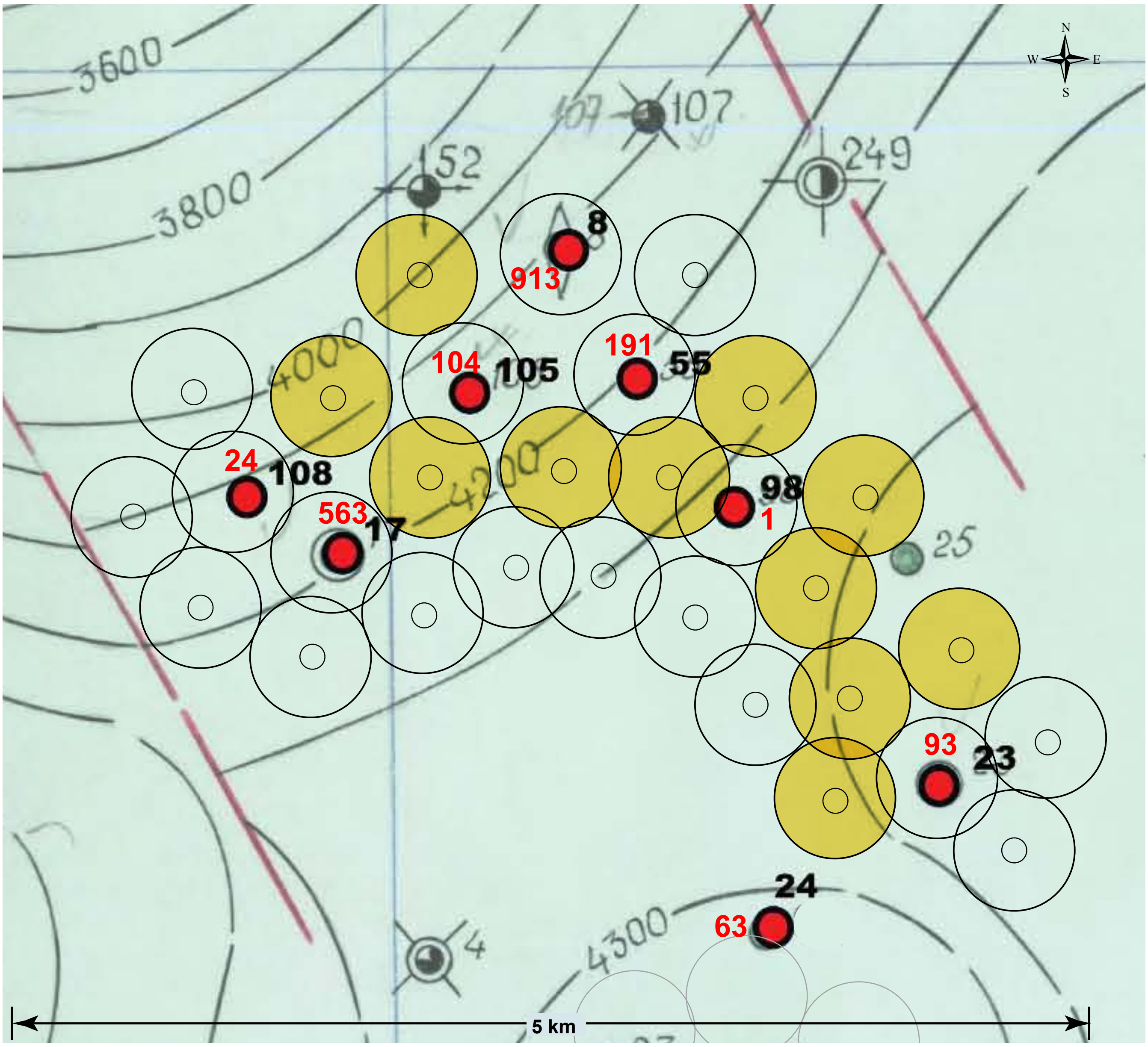
MURADKHANLI POOLS 1,2,3
Upper Cretaceous Formation

MURADKHANLI FIELD, AZERBAIJAN

DEVELOPMENT MODEL

SEP. 2016 JOB No. 6264 FIGURE No. 3a

Chapman Petroleum Engineering Ltd.



Active well in Mid. Eocene Formation

Location

Probable estimated drainage area

PUD estimated drainage area

2 Well number

2 Cumulative production - Thousands of STB

Note: Contours are Structure on Lower Cretaceous (C.I.=100 m)

ZENITH ENERGY LTD.

MURADKHANLI SE POOL
Middle Eocene Formation

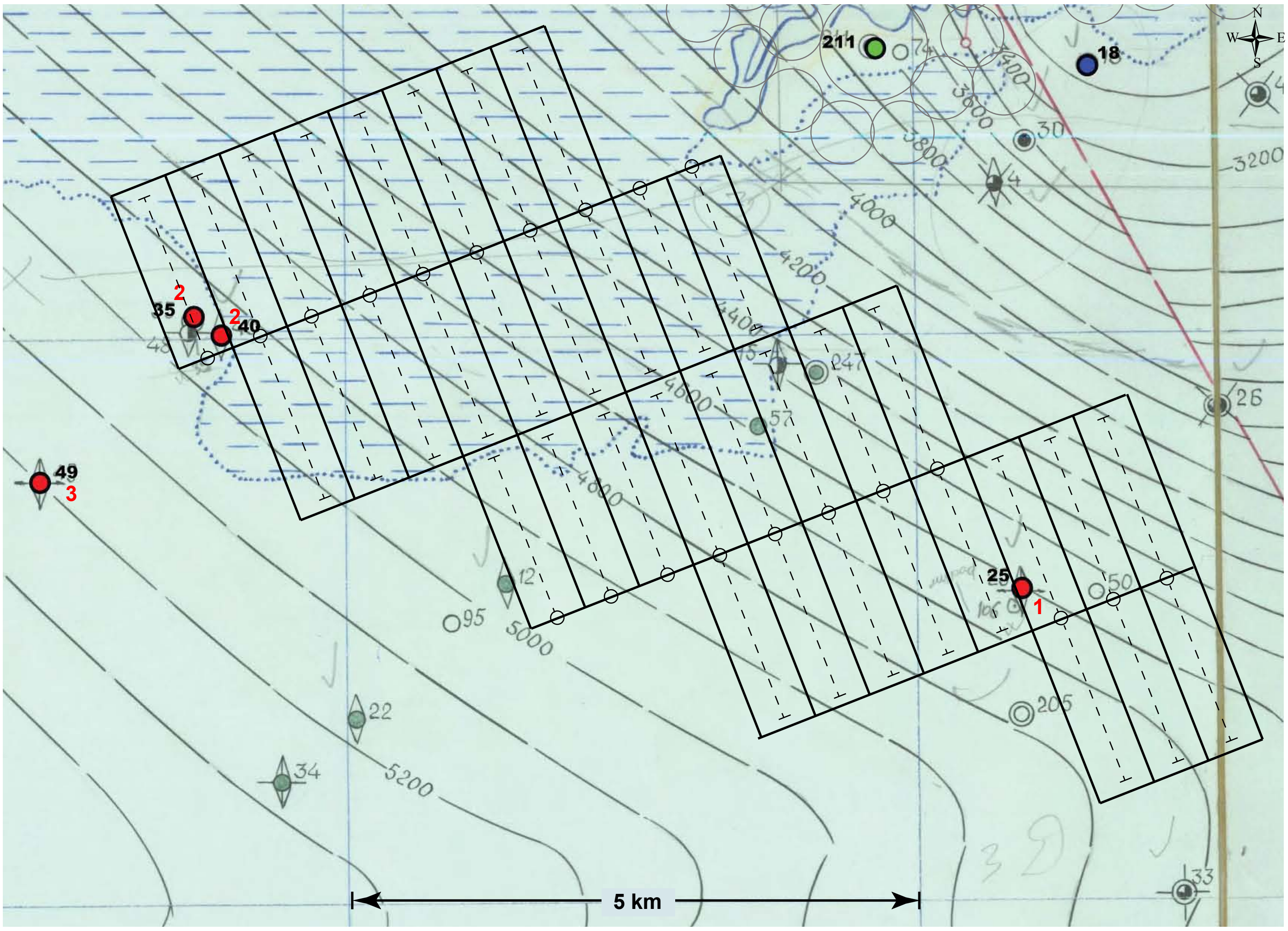
MURADKHANLI FIELD, AZERBAIJAN

DEVELOPMENT MODEL

SEP. 2016 **JOB No. 6264** **FIGURE No. 3b**

78

Chapman Petroleum Engineering Ltd.



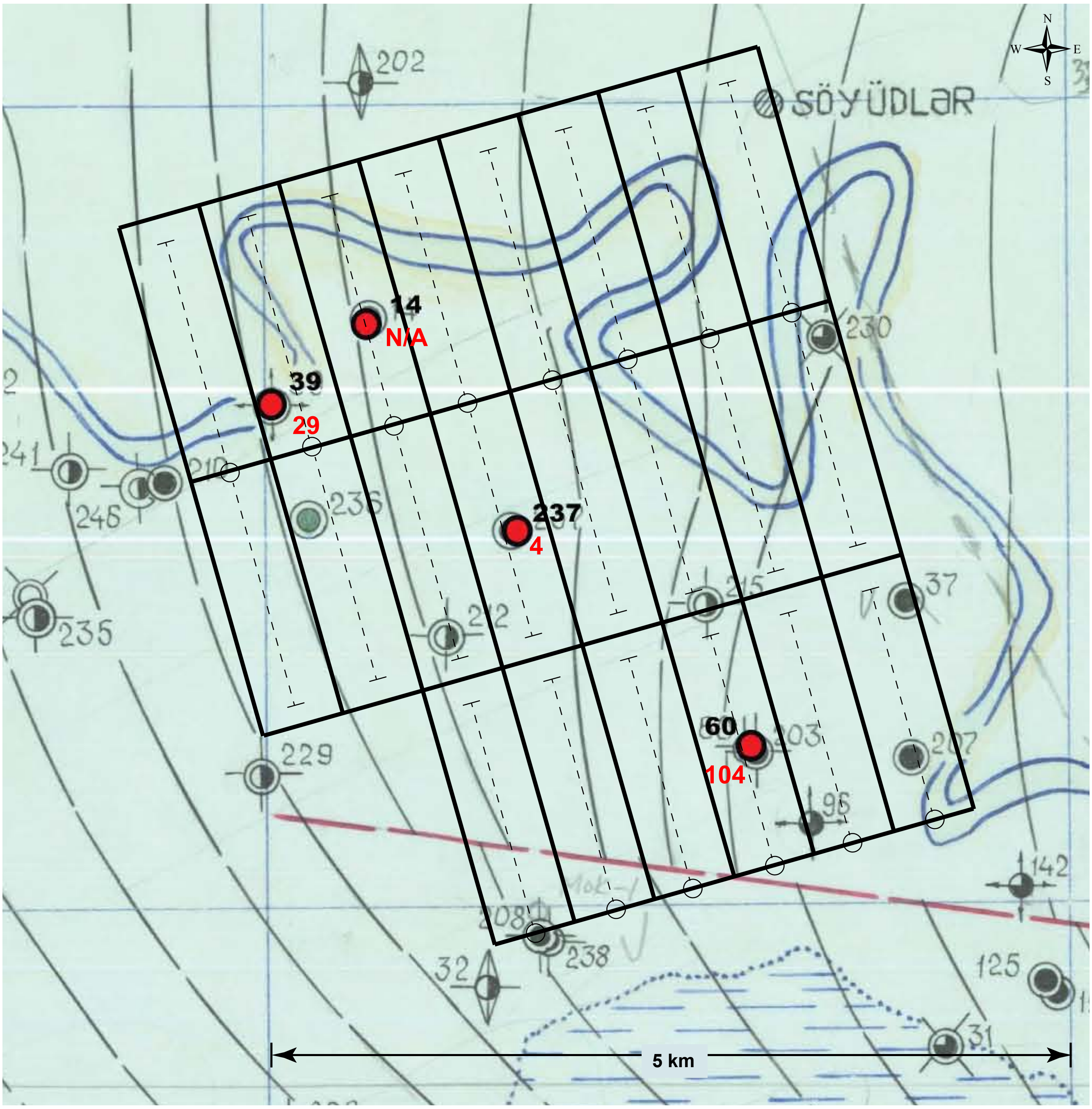
- Active well in Mid. Eocene Formation
- ○ Location
- Horizontal location estimated drainage area

2 Well number
2 Cumulative production - Thousands of STB

Note: Contours are Structure on Lower Cretaceous (C.I.=100 m)

ZENITH ENERGY LTD.
MURADKHANLI SOUTH POOL **Middle Eocene Formation** **MURADKHANLI FIELD, AZERBAIJAN** **DEVELOPMENT MODEL**
SEP. 2016 JOB No. 6264 FIGURE No. 3c

Chapman Petroleum Engineering Ltd.



● Active well in Mid. Eocene Formation

○ Location

▯ Horizontal location estimated drainage area

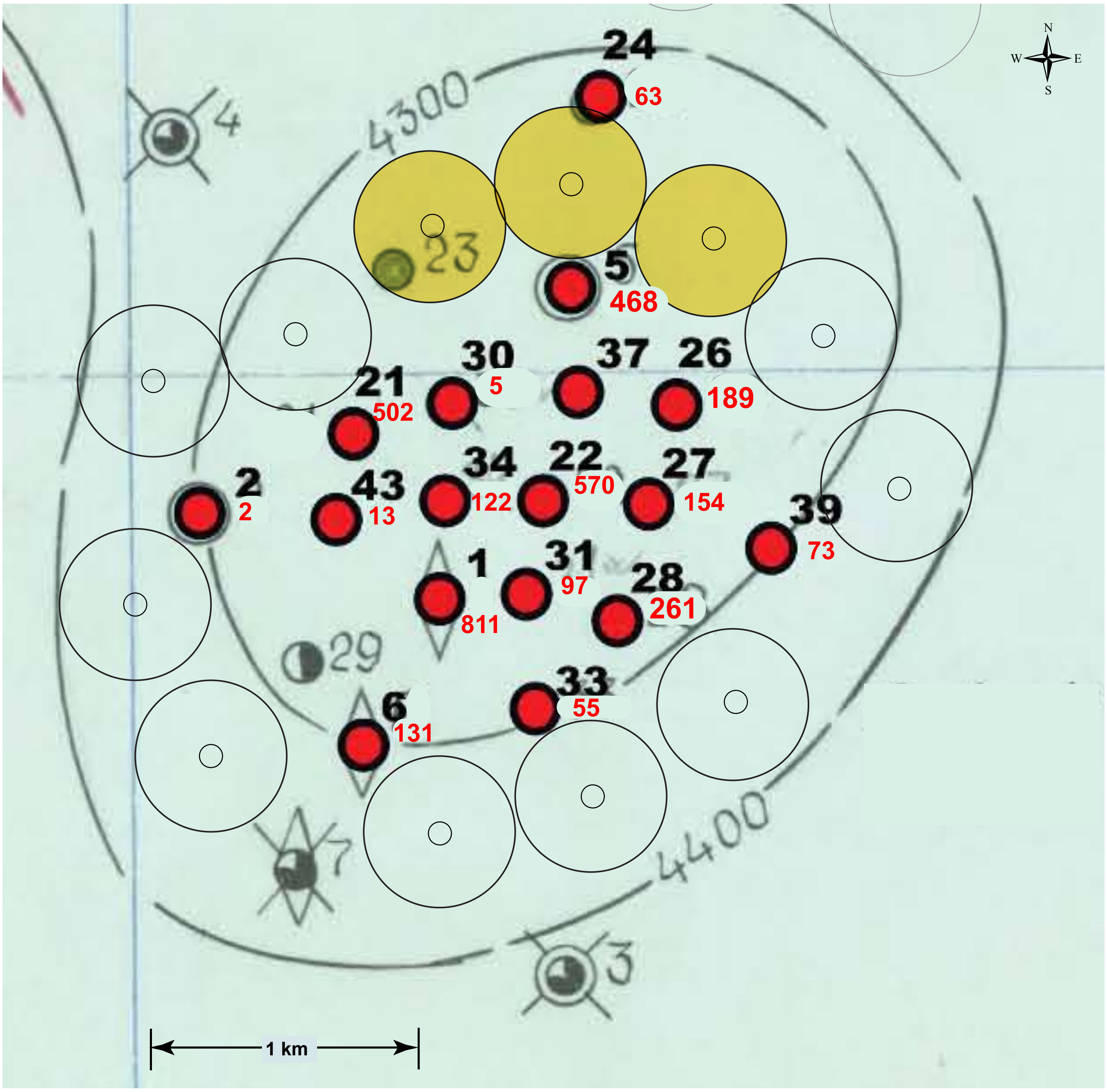
2 Well number

2 Cumulative production - Thousands of STB

Note: Contours are Structure on Lower Cretaceous (C.I.=100 m)

ZENITH ENERGY LTD.
MURADKHANLI NORTH POOL **Middle Eocene Formation** **MURADKHANLI FIELD, AZERBAIJAN** **DEVELOPMENT MODEL**
SEP. 2016 **JOB No. 6264** **FIGURE No. 3d**

Chapman Petroleum Engineering Ltd.



Active well in Mid. Eocene Formation

Location

Probable estimated drainage area

PUD estimated drainage area

2 Well number

2 Cumulative production - Thousands of STB

Note: Contours are Structure on Lower Cretaceous (C.I.=100 m)

ZENITH ENERGY LTD.

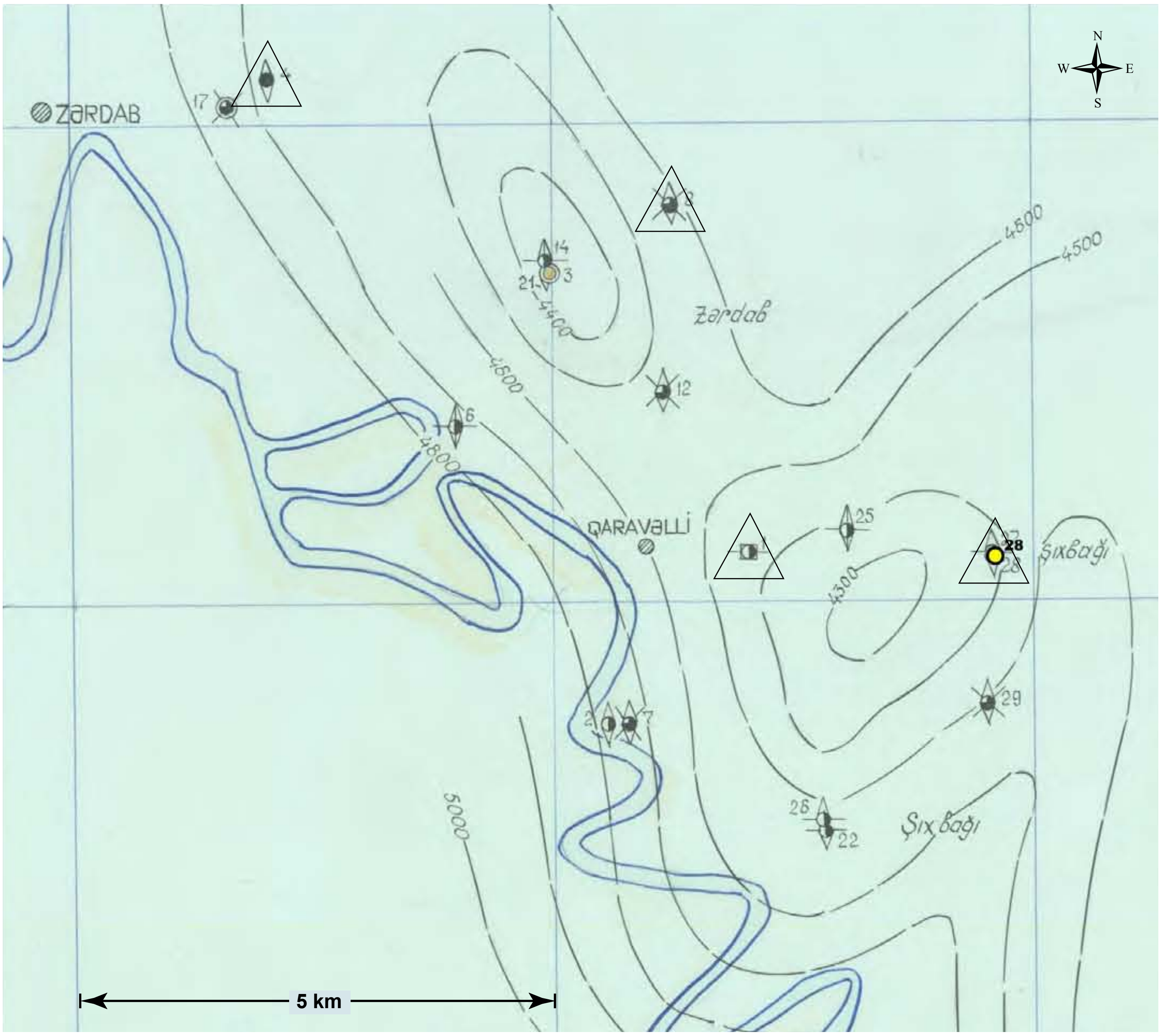
JAFARLI POOL
Middle Eocene Formation

JAFARLI FIELD, AZERBAIJAN

DEVELOPMENT MODEL

SEP. 2016	**JOB No. 6264**	**FIGURE No. 3e**

Chapman *Petroleum Engineering Ltd.*



○ Active well in Maykop

△ Workover Candiate

Note: Contours are Structure on Lower Cretaceous (C.I.=100 m)

ZENITH ENERGY LTD.
ZARDAB POOL **Maykop Formation** **ZARDAB FIELD, AZERBAIJAN** **DEVELOPMENT MODEL**
SEP. 2016 **JOB No. 6264** **FIGURE No. 3f**

Chapman *Petroleum Engineering Ltd.*

PRODUCTION HISTORY

Zenith Energy Ltd.

Field: Jafarli Oil Field Azerbaijan
Formation: Upper Cretaceous Volcanic

Figure 4a

Chapman Petroleum Engineering Ltd.

PRODUCTION HISTORY

Zenith Energy Ltd.

Field: Muradkhanli Oil Field Azerbaijan
Formation: Upper Cretaceous Volcanic

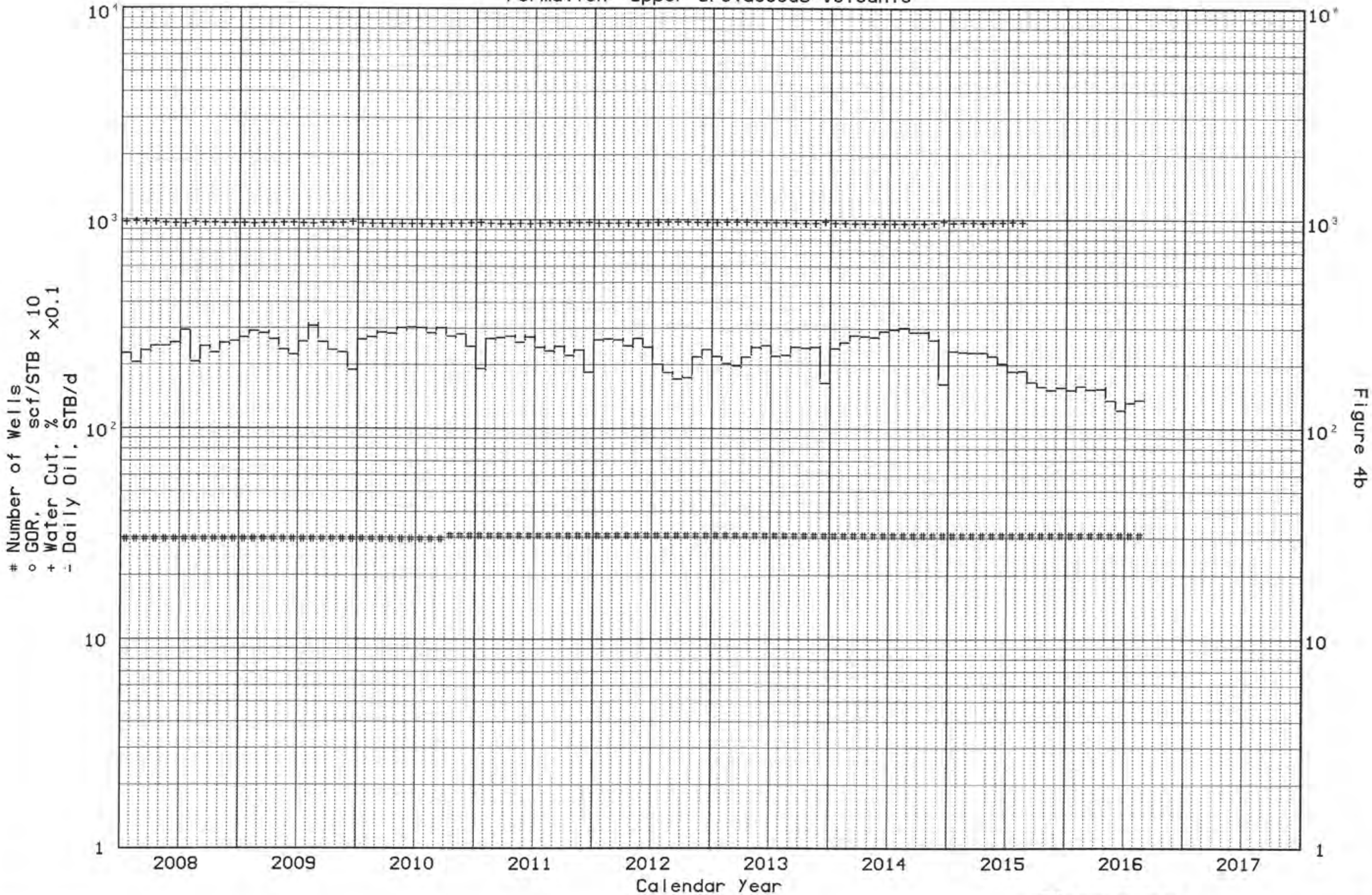


Figure 4b

Chapman Petroleum Engineering Ltd.

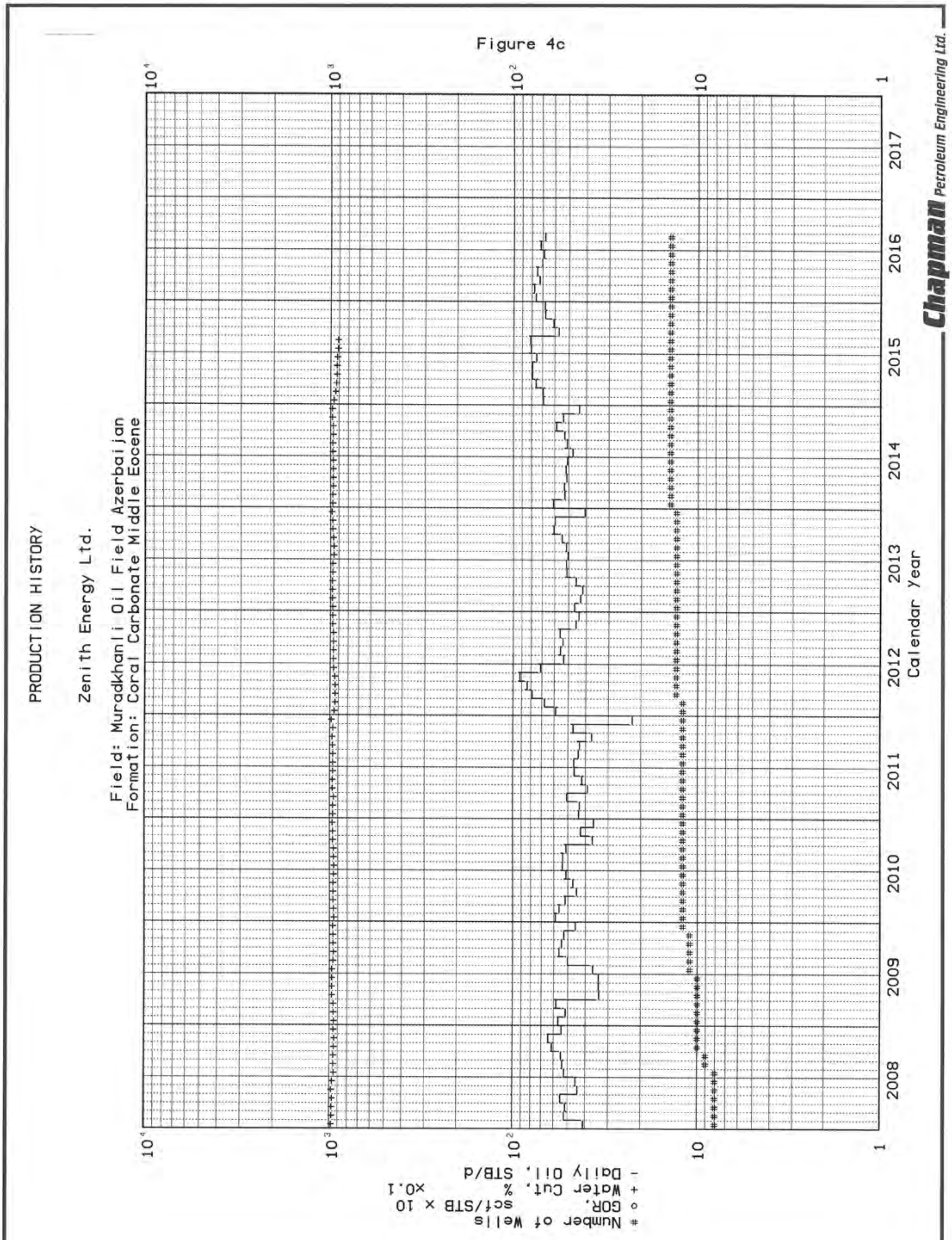


Figure 4c
PRODUCTION HISTORY
Zenith Energy Ltd.
Field: Muradkhanli Oil Field Azerbaijan
Formation: Coral Carbonate Middle Eocene
Number of Wells
○ GOR, scf/STB × 10
+ Water Cut, % ×0.1
- Daily Oil, STB/d
Calendar Year
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
10^4
10^3
10^2
10
1
Chapman Petroleum Engineering Ltd.

85

Table 3a

Summary of Anticipated Capital Expenditures

Development

September 1, 2016

Zenith Energy Ltd.

Muradkhanli (MRX), Jafarli (JFL) and Zardab (ZRD) Oil Fields, Kura Region, Azerbaijan

Description	Date	Operation	Capital Interest %	Gross Capital M$	Net Capital M$
Proved Undeveloped					
5 Development wells	Jul 19	Drill, Complete, Equip & Tie in 5 Development Wells	80.0000	21,500	17,200
Upgrade Facilities	Jul-19	Upgrade Gathering System and Central Facilities	80.0000	1,500	1,200
8 Development wells	Jul 20	Drill, Complete, Equip & Tie in 8 Development Wells	80.0000	34,400	27,520
6 Development wells	Jul 21	Drill, Complete, Equip & Tie in 6 Development Wells	80.0000	25,800	20,640
4 Development wells	Jul 22	Drill, Complete, Equip & Tie in 4 Development Wells	80.0000	17,200	13,760
3 Development wells	Jul 23	Drill, Complete, Equip & Tie in 3 Development Wells	80.0000	12,900	10,320
3 Development wells	Jul 24	Drill, Complete, Equip & Tie in 3 Development Wells	80.0000	12,900	10,320
1 Development well	Jul 25	Drill, Complete, Equip & Tie in 1 Development Well	80.0000	4,300	3,440
1 Development well	Jul 26	Drill, Complete, Equip & Tie in 1 Development Well	80.0000	4,300	3,440
1 Development well	Jul 27	Drill, Complete, Equip & Tie in 1 Development Well	80.0000	4,300	3,440
1 Development well	Jul 28	Drill, Complete, Equip & Tie in 1 Development Well	80.0000	4,300	3,440
		Total Proved Undeveloped		**143,400**	**114,720**
		Total Proved		**143,400**	**114,720**
Probable					
Developed Non- Producing					
10 High Potential workovers	Jul-17	10 High Potential workovers	80.0000	250	200
11 High Potential workovers	Jul-18	11 High Potential workovers	80.0000	275	220
5 Zardab workovers	Jul-19	5 High Potential Zardab Maykop workovers	80.0000	750	600
10 fair potential workovers	Jul-19	10 Fair Potential workovers	80.0000	320	256
8 fair potential workovers	Jul-20	8 Fair Potential workovers	80.0000	256	205
Undeveloped					
5 PUD Locations	Jul 19	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	3,500	2,800
8 PUD Locations	Jul 20	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	5,600	4,480
Drill 2 Probable HZ Locations	Jul 20	Drill, Complete, Equip & Tie in 2 HZ Wells	80.0000	10,000	8,000
3D Seismic Program	Jul-20	3D Seismic Program, Processing & Interpretation	80.0000	4,000	3,200
6 PUD Locations	Jul 21	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	4,200	3,360
Drill 4 Probable HZ Locations	Jul 21	Drill, Complete, Equip & Tie in 4 HZ Wells	80.0000	20,000	16,000
3D Seismic Program	Jul-21	3D Seismic Program, Processing & Interpretation	80.0000	4,000	3,200
4 PUD Locations	Jul 22	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	2,800	2,240
Drill 6 Probable Locations	Jul 22	Drill, Complete, Equip & Tie in 4 HZ & 2 Vertical Wells	80.0000	30,000	24,000
3D Seismic Program	Jul-22	3D Seismic Program, Processing & Interpretation	80.0000	4,000	3,200
3 PUD Locations	Jul 23	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	2,100	1,680
Drill 7 Probable Locations	Jul 23	Drill, Complete, Equip & Tie in 4 HZ & 3 Vertical Wells	80.0000	35,000	28,000
3D Seismic Program		3D Seismic Program, Processing & Interpretation	80.0000	4,000	3,200
3 PUD Locations	Jul-24	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	2,100	1,680
Drill 7 Probable Locations	Jul-24	Drill, Complete, Equip & Tie in 4 HZ & 3 Vertical wells	80.0000	35,000	28,000
3D Seismic Program		3D Seismic Program, Processing & Interpretation	80.0000	4,000	3,200
1 PUD Location	Jul-25	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	700	560
Drill 9 Probable Locations	Jul-25	Drill, Complete, Equip & Tie in 4 HZ & 5 Vertical wells	80.0000	45,000	36,000
1 PUD Location	Jul-26	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	700	560
Drill 9 Probable Locations	Jul-26	Drill, Complete, Equip & Tie in 4 HZ & 5 Vertical Wells	80.0000	45,000	36,000
1 PUD Location	Jul-27	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	700	560
Drill 9 Probable Locations	Jul-27	Drill, Complete, Equip & Tie in 4 HZ & 5 Vertical Wells	80.0000	45,000	36,000
1 PUD Location	Jul-28	Increment for Costs for 2nd Rig & Expanded Facilities	80.0000	700	560
Drill 9 Probable Locations	Jul-28	Drill, Complete, Equip & Tie in 4 HZ & 5 Vertical Wells	80.0000	45,000	36,000
Drill 10 Probable Locations	Jul-29	Drill, Complete, Equip & Tie in 4 HZ & 6 Vertical Wells	80.0000	50,000	40,000
Drill 10 Probable Locations	Jul-30	Drill, Complete, Equip & Tie in 4 HZ & 6 Vertical Wells	80.0000	50,000	40,000
Drill 10 Probable Locations	Jul-31	Drill, Complete, Equip & Tie in 6 HZ & 4 Vertical Wells	80.0000	50,000	40,000
Drill 10 Probable Locations	Jul-32	Drill, Complete, Equip & Tie in 6 HZ & 4 Vertical Wells	80.0000	50,000	40,000
Drill 10 Probable Locations	Jul-33	Drill, Complete, Equip & Tie in 4 HZ & 6 Vertical Wells	80.0000	50,000	40,000
		Total Probable		**604,951**	**483,961**
		Total Proved Plus Probable		**748,351**	**598,681**

Note: **M$ means thousands of US dollars.**
The above capital values are expressed in terms of current dollar values without escalation.
Unless details are known, drilling costs have been split 70% Intangible and 30% Tangible for tax purposes

Table 3b

Summary of Anticipated Capital Expenditures
Abandonment and Restoration

September 1, 2016

Zenith Energy Ltd.

Muradkhanli (MRX), Jafarli (JFL) and Zardab (ZRD) Oil Fields, Kura Region, Azerbaijan

Description	Well Parameters	Capital Interest %	Gross Capital M$	Net Capital M$

As specified in the REDPSA, an Abandaomant Fund is to be created by all parties to the agreement and a mechanism is to be established for making contributions to the fund. Contributions to the fund will be considered operating expenses.

Table 4
Summary of Company Reserves and Economics
Before Income Tax
September 1, 2016

Forecast Prices & Costs

Zenith Energy Ltd.

Jafarli, Muradkhanli, and Zardab Oil Field, Azerbaijan

Description			Net To Appraised Interest: Reserves, Light and Medium Oil MSTB, Net	Cumulative Cash Flow (BIT) - M$: Undisc.	Discounted at: 5%/year	10%/year	15%/year	20%/year
Proved Developed Producing								
64 producing wells	Volcanic & Carbonate		468	3,899	3,013	2,405	1,972	1,653
Total Proved Developed Producing			468	3,899	3,013	2,405	1,972	1,653
Proved Undeveloped								
33 Locations	Volcanic & Carbonate		3,686	108,174	59,282	32,018	16,401	7,288
Total Proved Undeveloped			3,686	108,174	59,282	32,018	16,401	7,288
Total Proved			4,153	112,073	62,295	34,423	18,373	8,941
Probable								
Probable Developed Producing								
64 producing wells	Volcanic & Carbonate	(Incr.)	138	216	92	22	(18)	(40)
Total Probable Developed Producing			138	216	92	22	(18)	(40)
Probable Developed Non-Producing								
Workover 44 Wells	Volcanic & Carbonate		890	40,558	29,742	22,589	17,654	14,126
Total Probable Developed Non-Producing			890	40,558	29,742	22,589	17,654	14,126
Probable Undeveloped								
145 Locations	Volcanic & Carbonate	(1)	28,242	1,831,573	805,551	393,141	210,129	121,269
Total Probable Undeveloped			28,242	1,831,573	805,551	393,141	210,129	121,269
Total Probable			29,270	1,872,347	835,384	415,752	227,765	135,355
Total Proved Plus Probable			33,424	1,984,420	897,679	450,175	246,138	144,296

M$ means thousands of US dollars.

Company Net reserves are the amounts attributable to the Company share of Cost Oil (Operating Cost Oil & Capital Cost Oil), and Profit Oil.

Columns may not add precisely due to accumulative rounding of values throughout the report.

Note (1): Includes the incremental probable reserves for the 33 Proved Undeveloped Locations.

Table 4a
Page 1

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Developed Producing
Production and Capital Forecast

	Field Production Profile							Total Oil Production			Capital Expenditures				
	Jafarli Carbonate	Muradkanli Volcanic	Muradkanli Carbonate	Days On	Jafarli Carbonate	Muradkanli Volcanic	Muradkanli Carbonate		Well Count		Exploration	Drilling & Completion	Well Fac. & Tie-ins	Central Facilities	Total Capital
Year	STB/d	STB/d	STB/d		STB/yr.	STB/yr.	STB/yr.	STB/yr.		STB/d	$M	$M	$M	$M	$M
2016	70	136	70	122	8540	16592	8540	33,672	64	276	0	0	0	0	0
2017	65	127	64	365	23,848	46,334	23,508	93,690	64	257	0	0	0	0	0
2018	59	114	57	365	21,464	41,701	20,687	83,851	54	230	0	0	0	0	0
2019	53	103	50	365	19,317	37,531	18,205	75,052	44	206	0	0	0	0	0
2020	48	93	44	365	17,385	33,777	16,020	67,183	35	184	0	0	0	0	0
2021	43	83	39	365	15,647	30,400	14,098	60,144	35	165	0	0	0	0	0
2022	39	75	34	365	14,082	27,360	12,406	53,848	35	148	0	0	0	0	0
2023	35	67	30	365	12,674	24,624	10,917	48,215	27	132	0	0	0	0	0
2024	31	61	26	365	11,407	22,161	9,607	43,175	25	118	0	0	0	0	0
2025	28	55	23	365	10,266	19,945	8,454	38,666	23	106	0	0	0	0	0
2026	25	49	20	365	9,239	17,951	7,440	34,630	21	95	0	0	0	0	0
2027	23	44	18	365	8,315	16,156	6,547	31,018	18	85	0	0	0	0	0
2028	21	40	16	365	7,484	14,540	5,761	27,785	12	76	0	0	0	0	0
2029	18	36	14	365	6,735	13,086	5,070	24,892	9	68	0	0	0	0	0
2030	17	32	12	365	6,062	11,777	4,462	22,301	9	61	0	0	0	0	0
2031	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2032	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2033	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2034	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2035	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2036	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2037	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2038	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2039	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2040	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2041	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
Total					**192,466**	**373,934**	**171,722**	**738,123**			**0**	**0**	**0**	**0**	**0**
Decline	10.00%	10.00%	12.00%												

Table 4a
Page 2

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Developed Producing

Production Splits - Cost Oil

					Operating Costs - $/yr.							Capital Cost Recovery						
	Gross Production	Oil Price	Gross Revenue	*Compen-satory Petroleum	Fixed	Variable	Total	Escalated Opex	Available Cost Oil	Operating Cost Oil	Available Capital Cost Oil	Available Capital Cost Oil Revenue Ceiling	Annual Capital Costs For Recovery	Interest on Outstanding Capital	Cumulative Outstanding Capital Costs	Annual Capital Cost Recovery	Cumulative Capital Cost Recovery	Capital Cost Oil
Year	STB/yr.	$/STB	$/yr.	STB/yr.	$/yr.	$/yr.	$/yr.	$/yr.	STB/yr.	STB/yr.	STB/yr.	$/yr.	$/yr.	$/yr.	$/yr.	$/yr.	$/yr.	STB/yr.
2016	33,672	$50.50	1,700,436	1,684	1,101,333	336,720	1,438,053	1,438,053	31,988	28,476	1,756	88,680	0	0	0	0	0	0
2017	93,690	$55.50	5,199,817	7,816	3,304,000	936,904	4,240,904	4,325,722	85,874	77,941	3,967	220,151	0	0	0	0	0	0
2018	83,851	$65.50	5,492,253	12,578	2,944,000	838,512	3,782,512	3,935,325	71,274	60,081	5,596	366,545	0	0	0	0	0	0
2019	75,052	$70.50	5,291,189	11,258	2,584,000	750,523	3,334,523	3,538,623	63,794	50,193	6,801	479,444	0	0	0	0	0	0
2020	67,183	$75.50	5,072,317	10,077	2,010,000	671,830	2,681,830	2,902,899	57,106	38,449	9,328	704,285	0	0	0	0	0	0
2021	60,144	$78.50	4,721,328	9,022	2,010,000	601,443	2,611,443	2,883,244	51,123	36,729	7,197	564,942	0	0	0	0	0	0
2022	53,848	$81.50	4,388,605	8,077	2,010,000	538,479	2,548,479	2,870,001	45,771	35,215	5,278	430,157	0	0	0	0	0	0
2023	48,215	$82.50	3,977,738	7,232	1,722,000	482,150	2,204,150	2,531,876	40,983	30,689	5,147	424,601	0	0	0	0	0	0
2024	43,175	$84.14	3,632,758	6,476	1,650,000	431,752	2,081,752	2,439,104	36,699	28,989	3,855	324,370	0	0	0	0	0	0
2025	38,666	$85.81	3,317,887	5,800	1,578,000	386,655	1,964,655	2,347,945	32,866	27,362	2,752	236,130	0	0	0	0	0	0
2026	34,630	$87.52	3,030,806	5,194	1,506,000	346,299	1,852,299	2,257,942	29,435	25,799	1,818	159,122	0	0	0	0	0	0
2027	31,018	$89.26	2,768,674	4,653	1,398,000	310,181	1,708,181	2,123,908	26,365	23,795	1,285	114,732	0	0	0	0	0	0
2028	27,785	$91.03	2,529,299	4,168	1,182,000	277,853	1,459,853	1,851,447	23,618	20,339	1,639	149,229	0	0	0	0	0	0
2029	24,892	$92.85	2,311,183	3,734	1,074,000	248,916	1,322,916	1,711,333	21,158	18,431	1,363	126,586	0	0	0	0	0	0
2030	22,301	$94.69	2,111,683	3,345	1,074,000	223,010	1,297,010	1,711,377	18,956	18,073	441	41,777	0	0	0	0	0	0
2031	0	$96.58	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2032	0	$98.51	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2033	0	$100.48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2034	0	$102.49	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2035	0	$104.54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2036	0	$106.63	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2037	0	$108.76	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2038	0	$110.94	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2039	0	$113.16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2040	0	$115.42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2041	0	$117.73	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	738,123		55,545,973	101,114	27,147,333	7,381,227	34,528,560	38,868,799	637,009	520,562	58,223	4,430,751	0	0		0		0
				5%	1,000,000	$10.00				100%	50%			4.50%				
				15%	$/yr	$/STB												

* Note Cumulative compensatory petroleum maximum is 315,000 STB

Fixed costs are reduced to $2.1 million/year in 2021 since only 16 wells are active

Chapman Petroleum Engineering Ltd.

Table 4a
Page 3
Zenith Energy Ltd.
September 1, 2016
Azerbaijan Project Particulars-Total Proved Developed Producing
Production Splits - Profit Oil

	Total Profit Oil		Contractors Share						Total Contractors Profit Oil	Total Contractors Profit Oil Revenue	Cumulative Contractor's Profit Oil Revenue
Year	STB/yr.	"R" Factor	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	$/yr.	$/yr.
2,016	3,512	0.00	1,932	0	0	0	0	0	1,932	97,548	97,548
2,017	7,933	0.00	4,363	0	0	0	0	0	4,363	242,166	339,714
2,018	11,192	0.00	6,156	0	0	0	0	0	6,156	403,199	742,914
2,019	13,601	0.00	7,481	0	0	0	0	0	7,481	527,388	1,270,302
2,020	18,657	0.00	10,261	0	0	0	0	0	10,261	774,714	2,045,016
2,021	14,393	0.00	7,916	0	0	0	0	0	7,916	621,436	2,666,452
2,022	10,556	0.00	5,806	0	0	0	0	0	5,806	473,172	3,139,624
2,023	10,293	0.00	5,661	0	0	0	0	0	5,661	467,061	3,606,685
2,024	7,710	0.00	4,241	0	0	0	0	0	4,241	356,807	3,963,493
2,025	5,504	0.00	3,027	0	0	0	0	0	3,027	259,743	4,223,235
2,026	3,636	0.00	2,000	0	0	0	0	0	2,000	175,034	4,398,269
2,027	2,571	0.00	1,414	0	0	0	0	0	1,414	126,206	4,524,475
2,028	3,279	0.00	1,803	0	0	0	0	0	1,803	164,151	4,688,626
2,029	2,727	0.00	1,500	0	0	0	0	0	1,500	139,245	4,827,871
2,030	882	0.00	485	0	0	0	0	0	485	45,954	4,873,826
2,031	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,032	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,033	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,034	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,035	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,036	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,037	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,038	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,039	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,040	0	0.00	0	0	0	0	0	0	0	0	4,873,826
2,041	0	0.00	0	0	0	0	0	0	0	0	4,873,826
Total	**116,447**		**64,046**	**0**	**0**	**0**	**0**	**0**	**64,046**	**4,873,826**	
			0.55	0.50	0.45	0.35	0.25	0.80			
			0<R<=1.25	1.25<R<=1.75	1.75<R<=2.00	2.00<R<=2.50	2.50<R<=2.75	2.75<R			

Table 4a
Page 4

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Developed Producing

Production Streams and Revenues

	Contractor' Share						Cost Schedule			Contractor's
Year	Operating Cost Oil	Capital Cost Oil	Net Profit Oil	Total Net Oil	Oil Price	Contractor's Total Revenue (Operating Cash Flow)	Total Operating Costs	Net Operating Income	Total Capital Costs	Net Cash Flow
	STB/yr.	STB/yr.	STB/yr.	STB/yr.	$/STB	$/yr.	$/yr.	$/yr.	$/yr.	$/yr.
2016	28,476	0	1,932	30,408	$50.50	1,535,602	1,438,053	97,548	0	97,548
2017	77,941	0	4,363	82,304	$55.50	4,567,888	4,325,722	242,166	0	242,166
2018	60,081	0	6,156	66,237	$65.50	4,338,525	3,935,325	403,199	0	403,199
2019	50,193	0	7,481	57,674	$70.50	4,066,011	3,538,623	527,388	0	527,388
2020	38,449	0	10,261	48,710	$75.50	3,677,613	2,902,899	774,714	0	774,714
2021	36,729	0	7,916	44,646	$78.50	3,504,681	2,883,244	621,436	0	621,436
2022	35,215	0	5,806	41,021	$81.50	3,343,174	2,870,001	473,172	0	473,172
2023	30,689	0	5,661	36,351	$82.50	2,998,937	2,531,876	467,061	0	467,061
2024	28,989	0	4,241	33,229	$84.14	2,795,911	2,439,104	356,807	0	356,807
2025	27,362	0	3,027	30,389	$85.81	2,607,687	2,347,945	259,743	0	259,743
2026	25,799	0	2,000	27,799	$87.52	2,432,976	2,257,942	175,034	0	175,034
2027	23,795	0	1,414	25,209	$89.26	2,250,114	2,123,908	126,206	0	126,206
2028	20,339	0	1,803	22,142	$91.03	2,015,598	1,851,447	164,151	0	164,151
2029	18,431	0	1,500	19,931	$92.85	1,850,578	1,711,333	139,245	0	139,245
2030	18,073	0	485	18,559	$94.69	1,757,332	1,711,377	45,954	0	45,954
2031	0	0	0	0	$96.58	0	0	0	0	0
2032	0	0	0	0	$98.51	0	0	0	0	0
2033	0	0	0	0	$100.48	0	0	0	0	0
2034	0	0	0	0	$102.49	0	0	0	0	0
2035	0	0	0	0	$104.54	0	0	0	0	0
2036	0	0	0	0	$106.63	0	0	0	0	0
2037	0	0	0	0	$108.76	0	0	0	0	0
2038	0	0	0	0	$110.94	0	0	0	0	0
2039	0	0	0	0	$113.16	0	0	0	0	0
2040	0	0	0	0	$115.42	0	0	0	0	0
2041	0	0	0	0	$117.73	0	0	0	0	0
Total	**520,562**	**0**	**64,046**	**584,608**		**43,742,625**	**38,868,799**	**4,873,826**	**0**	**4,873,826**
Company Net Share of Reserves			**80%**	**467,686**						

Chapman Petroleum Engineering Ltd.

Table 4a
Page 5

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Developed Producing

Company Cash Flow Analysis

		Net to Company Before and After Income Tax				
		Undiscounted	Discounted @			
	Company Net Oil	Net Cash Flow (Profit)	5%	10%	15%	20%
Year	STB/yr.	$/yr.	$	$	$	$
2016	24,326	78,039	77,409	76,814	76,249	75,712
2017	65,843	193,733	186,017	178,946	172,441	166,435
2018	52,990	322,559	294,965	270,855	249,661	230,925
2019	46,139	421,911	367,444	322,074	283,964	251,710
2020	38,968	619,771	514,059	430,104	362,724	308,127
2021	35,716	497,149	392,716	313,643	253,008	205,970
2022	32,816	378,538	284,782	217,103	167,517	130,691
2023	29,081	373,649	267,718	194,817	143,786	107,502
2024	26,583	285,446	194,782	135,299	95,516	68,438
2025	24,311	207,794	135,042	89,539	60,463	41,517
2026	22,239	140,027	86,668	54,853	35,430	23,314
2027	20,167	100,965	59,515	35,955	22,214	14,009
2028	17,714	131,321	73,723	42,514	25,124	15,184
2029	15,945	111,396	59,559	32,785	18,533	10,733
2030	14,847	36,764	18,720	9,836	5,318	2,952
2031	0	0	0	0	0	0
2032	0	0	0	0	0	0
2033	0	0	0	0	0	0
2034	0	0	0	0	0	0
2035	0	0	0	0	0	0
2036	0	0	0	0	0	0
2037	0	0	0	0	0	0
2038	0	0	0	0	0	0
2039	0	0	0	0	0	0
2040	0	0	0	0	0	0
2041	0	0	0	0	0	0
Total	**467,686**	**3,899,060**	**3,013,117**	**2,405,137**	**1,971,949**	**1,653,219**
	80%	80.00%				

Table 4b

Page 1

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved

Production and Capital Forecast

	Total Oil Production					Drilling Capital Expenditures - $M							
	Total Developed Producing	Total Proved Undeveloped	Total Proved	Total Proved well count		Exploration	Seismic	Drilling & Completion	Pipeline	Well Fac. & Tie-ins	Central Facilities	Total Capital	Escalated Capital
Year	STB/yr.	STB/yr.	STB/yr.		STB/d	$M	$M	$M	$M	$M	$M	$M	
2016	33,672	0	33,672	64	92	0	0	0	0	0	0	0	0
2017	93,690	0	93,690	64	257	0	0	0	0	0	0	0	0
2018	83,851	0	83,851	54	230	0	0	0	0	0	0	0	0
2019	75,052	134,663	209,715	49	575	0	0	21,500	0	500	1,000	23,000	24,408
2020	67,183	397,180	464,363	48	1272	0	0	34,400	0	0	0	34,400	37,236
2021	60,144	597,754	657,899	54	1802	0	0	25,800	0	0	0	25,800	28,485
2022	53,848	672,983	726,831	58	1991	0	0	17,200	0	0	0	17,200	19,370
2023	48,215	678,042	726,257	53	1990	0	0	12,900	0	0	0	12,900	14,818
2024	43,175	665,471	708,646	54	1941	0	0	12,900	0	0	0	12,900	15,114
2025	38,666	599,325	637,991	53	1748	0	0	4,300	0	0	0	4,300	5,139
2026	34,630	515,621	550,251	52	1508	0	0	4,300	0	0	0	4,300	5,242
2027	31,018	447,781	478,799	50	1312	0	0	4,300	0	0	0	4,300	5,347
2028	27,785	390,617	418,402	44	1146	0	0	4,300	0	0	0	4,300	5,453
2029	24,892	315,523	340,415	39	933	0	0	0	0	0	0	0	0
2030	22,301	239,696	261,997	37	718	0	0	0	0	0	0	0	0
2031	0	178,776	178,776	25	490	0	0	0	0	0	0	0	0
2032	0	125,444	125,444	20	344	0	0	0	0	0	0	0	0
2033	0	78,480	78,480	14	215	0	0	0	0	0	0	0	0
2034	0	35,813	35,813	7	98	0	0	0	0	0	0	0	0
2035	0	0	0	0	0	0	0	0	0	0	0	0	0
2036	0	0	0	0	0	0	0	0	0	0	0	0	0
2037	0	0	0	0	0	0	0	0	0	0	0	0	0
2038	0	0	0	0	0	0	0	0	0	0	0	0	0
2039	0	0	0	0	0	0	0	0	0	0	0	0	0
2040	0	0	0	0	0	0	0	0	0	0	0	0	0
2041	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**738,123**	**6,073,170**	**6,811,292**			**0**	**0**	**141,900**	**0**	**500**	**1,000**	**143,400**	**160,612**

Table 4b

Page 1a

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Proved Undeveloped

Production and Capital Forecast

	Single Well Production Profile												Development Program			
	Jafarli	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 2: (North)	Muradkanli Pool 3: (South)	Muradkanli Mid Eocene		Jafarli	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 2: (North)	Muradkanli Pool 3: (South)	Muradkanli Mid Eocene		Jafarli	Jafarli	Jafarli	Muradkanli Pool 1: (Fringe)
Year	STB/d	STB/d	STB/d	STB/d	STB/d	Days On	STB/yr	STB/yr	STB/yr	STB/yr	STB/yr	Well Count	1	1	1	1
2016	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2017	149	149	153	149	149	180	26,775	26,775	27,563	26,775	26,775	0	0	0	0	0
2018	98	98	105	98	98	365	35,770	35,770	38,325	35,770	35,770	0	0	0	0	0
2019	79	81	91	77	69	365	28,973	29,703	33,036	28,192	25,143	5	26,775	0	0	26,775
2020	64	68	78	61	48	365	23,467	24,665	28,478	22,219	17,673	13	35,770	26,775	0	35,770
2021	52	56	67	48	34	365	19,007	20,482	24,548	17,512	12,423	19	28,973	35,770	26,775	29,703
2022	42	47	58	38	24	365	15,395	17,008	21,161	13,802	8,732	23	23,467	28,973	35,770	24,665
2023	34	39	50	30	17	365	12,470	14,123	18,241	10,878	6,138	26	19,007	23,467	28,973	20,482
2024	28	32	43	23	12	365	10,100	11,728	15,724	8,573	4,314	29	15,395	19,007	23,467	17,008
2025	22	27	37	19	8	365	8,181	9,738	13,554	6,757	3,033	30	12,470	15,395	19,007	14,123
2026	18	22	32	15	0	365	6,626	8,087	11,684	5,325	0	31	10,100	12,470	15,395	11,728
2027	15	18	28	11	0	365	5,367	6,715	10,071	4,197	0	32	8,181	10,100	12,470	9,738
2028	12	15	24	0	0	365	4,347	5,576	8,682	0	0	32	6,626	8,181	10,100	8,087
2029	10	13	21	0	0	365	3,521	4,630	7,484	0	0	30	5,367	6,626	8,181	6,715
2030	0	0	18	0	0	365	0	0	6,451	0	0	28	4,347	5,367	6,626	5,576
2031	0	0	0	0	0	365	0	0	0	0	0	25	3,521	4,347	5,367	4,630
2032	0	0	0	0	0	365	0	0	0	0	0	20	0	3,521	4,347	0
2033	0	0	0	0	0	365	0	0	0	0	0	14	0	0	3,521	0
2034	0	0	0	0	0	365	0	0	0	0	0	7	0	0	0	0
2035	0	0	0	0	0	365	0	0	0	0	0	3	0	0	0	0
2036	0	0	0	0	0	365	0	0	0	0	0	1	0	0	0	0
2037	0	0	0	0	0	365	0	0	0	0	0	0	0	0	0	0
2038	0	0	0	0	0	365	0	0	0	0	0	0	0	0	0	0
2039	0	0	0	0	0	365	0	0	0	0	0	0	0	0	0	0
2040	0	0	0	0	0	365	0	0	0	0	0	0	0	0	0	0
2041	0	0	0	0	0	365	0	0	0	0	0	0	0	0	0	0
Total							**200,000**	**215,000**	**265,000**	**180,000**	**140,000**		**200,000**	**200,000**	**200,000**	**215,000**

Table 4b

Page 1b

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Proved Undeveloped

Production and Capital Forecast

Development Program														
Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene
1	1	1	2	1	1	1	2	2	2	2	2	1	2	1
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	27,563	0	0	0	26,775	0	0	0	0	0	26,775	0	0
26,775	0	38,325	55,125	0	0	35,770	53,550	0	0	0	0	35,770	53,550	0
35,770	26,775	33,036	76,650	27,563	0	28,192	71,540	53,550	0	0	0	25,143	71,540	26,775
29,703	35,770	28,478	66,073	38,325	27,563	22,219	56,384	71,540	53,550	0	0	17,673	50,286	35,770
24,665	29,703	24,548	56,956	33,036	38,325	17,512	44,438	56,384	71,540	53,550	0	12,423	35,346	25,143
20,482	24,665	21,161	49,096	28,478	33,036	13,802	35,024	44,438	56,384	71,540	53,550	8,732	24,845	17,673
17,008	20,482	18,241	42,321	24,548	28,478	10,878	27,604	35,024	44,438	56,384	71,540	6,138	17,464	12,423
14,123	17,008	15,724	36,481	21,161	24,548	8,573	21,756	27,604	35,024	44,438	56,384	4,314	12,275	8,732
11,728	14,123	13,554	31,447	18,241	21,161	6,757	17,146	21,756	27,604	35,024	44,438	3,033	8,628	6,138
9,738	11,728	11,684	27,108	15,724	18,241	5,325	13,514	17,146	21,756	27,604	35,024	0	6,065	4,314
8,087	9,738	10,071	23,367	13,554	15,724	4,197	10,651	13,514	17,146	21,756	27,604	0	0	3,033
6,715	8,087	8,682	20,143	11,684	13,554	0	8,394	10,651	13,514	17,146	21,756	0	0	0
5,576	6,715	7,484	17,363	10,071	11,684	0	0	8,394	10,651	13,514	17,146	0	0	0
4,630	5,576	6,451	14,967	8,682	10,071	0	0	0	8,394	10,651	13,514	0	0	0
0	4,630	0	12,902	7,484	8,682	0	0	0	0	8,394	10,651	0	0	0
0	0	0	0	6,451	7,484	0	0	0	0	0	8,394	0	0	0
0	0	0	0	0	6,451	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
215,000	**215,000**	**265,000**	**530,000**	**265,000**	**265,000**	**180,000**	**360,000**	**360,000**	**360,000**	**360,000**	**360,000**	**140,000**	**280,000**	**140,000**

Chapman Petroleum Engineering Ltd.

Table 4b

Page 1c

Zenith Energy Ltd.

October 1, 2015

Azerbaijan Project Particulars-Proved Undeveloped

Production and Capital Forecast

Production and Capital Forecast										Capital Expenditures - $M				
Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Total Production	Cumulative Production	Daily Rate			Well		
1	1	1	1	1	1	1	STB/yr.	STB	STB/d	Seismic	Drilling & Completion	Fac. & Tie-ins	Central Facilities	Total Capital
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	134,663	134,663	369	0	21,500	500	1,000	23,000
0	0	0	0	0	0	0	397,180	531,843	1088	0	34,400	0	0	34,400
0	0	0	0	0	0	0	597,754	1,129,597	1638	0	25,800	0	0	25,800
26,775	0	0	0	0	0	0	672,983	1,802,580	1844	0	17,200	0	0	17,200
35,770	26,775	0	0	0	0	0	678,042	2,480,622	1858	0	12,900	0	0	12,900
25,143	35,770	26,775	0	0	0	0	665,471	3,146,093	1823	0	12,900	0	0	12,900
17,673	25,143	35,770	26,775	0	0	0	599,325	3,745,418	1642	0	4,300	0	0	4,300
12,423	17,673	25,143	35,770	26,775	0	0	515,621	4,261,039	1413	0	4,300	0	0	4,300
8,732	12,423	17,673	25,143	35,770	26,775	0	447,781	4,708,820	1227	0	4,300	0	0	4,300
6,138	8,732	12,423	17,673	25,143	35,770	26,775	390,617	5,099,437	1070	0	4,300	0	0	4,300
4,314	6,138	8,732	12,423	17,673	25,143	35,770	315,523	5,414,960	864	0	0	0	0	0
3,033	4,314	6,138	8,732	12,423	17,673	25,143	239,696	5,654,656	657	0	0	0	0	0
0	3,033	4,314	6,138	8,732	12,423	17,673	178,776	5,833,433	490	0	0	0	0	0
0	0	3,033	4,314	6,138	8,732	12,423	125,444	5,958,876	344	0	0	0	0	0
0	0	0	3,033	4,314	6,138	8,732	78,480	6,037,356	215	0	0	0	0	0
0	0	0	0	3,033	4,314	6,138	35,813	6,073,170	98	0	0	0	0	0
0	0	0	0	0	3,033	4,314	13,798	6,086,967	38	0	0	0	0	0
0	0	0	0	0	0	3,033	3,033	6,090,000	8	0	0	0	0	0
0	0	0	0	0	0	0	0	6,090,000	0	0	0	0	0	0
0	0	0	0	0	0	0	0	6,090,000	0	0	0	0	0	0
0	0	0	0	0	0	0	0	6,090,000	0	0	0	0	0	0
0	0	0	0	0	0	0	0	6,090,000	0	0	0	0	0	0
0	0	0	0	0	0	0	0	6,090,000	0	0	0	0	0	0
140,000	**140,000**	**140,000**	**140,000**	**140,000**	**140,000**	**140,000**	**6,090,000**			**0**	**141,900**	**500**	**1,000**	**143,400**

Chapman Petroleum Engineering Ltd.

Table 4b
Page 2

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved

Production Splits - Cost Oil

					Operating Costs - $/yr.								Capital Cost Recovery					
	Gross Production	Oil Price	Gross Revenue	*Compensatory Petroleum	Fixed	Variable	Total	Escalated Opex	Available Cost Oil	Operating Cost Oil	Available Capital Cost Oil	Available Capital Cost Oil Revenue Ceiling	Annual Capital Costs For Recovery	Interest on Outstanding Capital	Cumulative Outstanding Capital Costs	Annual Capital Cost Recovery	Cumulative Capital Cost Recovery	Capital Cost Oil
Year	STB/yr.	$/STB	$/yr.	STB/yr.	$/yr.	$/yr.	$/yr.		STB/yr.	STB/yr.	STB/yr.	$/yr	$/yr.	$/yr.	$/yr.	$/yr.	$/yr.	STB/yr.
2016	33,672	$50.50	1,700,436	1,684	1,101,333	336,720	1,438,053	1,438,053	31,988	28,476	1,756	88,680	0	0	0	0	0	0
2017	93,690	$55.50	5,199,817	11,756	3,304,000	936,904	4,240,904	4,325,722	81,934	77,941	1,997	110,812	0	0	0	0	0	0
2018	83,851	$65.50	5,492,253	12,578	2,944,000	838,512	3,782,512	3,935,325	71,274	60,081	5,596	366,545	0	0	0	0	0	0
2019	209,715	$70.50	14,784,895	31,457	2,764,000	2,097,148	4,861,148	5,158,689	178,258	73,173	52,542	3,704,236	24,407,784	0	24,407,784	3,704,236	3,704,236	52,542
2020	464,363	$75.50	35,059,407	69,654	2,728,000	4,643,630	7,371,630	7,979,289	394,709	105,686	144,511	10,910,603	37,235,666	931,660	58,670,874	10,910,603	14,614,839	144,511
2021	657,899	$78.50	51,645,049	98,685	2,944,000	6,578,987	9,522,987	10,514,147	559,214	133,938	212,638	16,692,072	28,485,285	2,158,212	78,603,768	16,692,072	31,306,911	212,638
2022	726,831	$81.50	59,236,697	89,186	3,088,000	7,268,306	10,356,306	11,662,883	637,645	143,103	247,271	20,152,577	19,369,994	2,786,026	84,067,716	20,152,577	51,459,488	247,271
2023	726,257	$82.50	59,916,235	0	2,908,000	7,262,574	10,170,574	11,682,793	726,257	141,610	292,324	24,116,721	14,818,045	2,876,181	81,609,365	24,116,721	75,576,209	292,324
2024	708,646	$84.14	59,625,479	0	2,944,000	7,086,461	10,030,461	11,752,283	708,646	139,675	284,485	23,936,598	15,114,406	2,587,169	75,194,219	23,936,598	99,512,807	284,485
2025	637,991	$85.81	54,745,980	0	2,908,000	6,379,907	9,287,907	11,099,908	637,991	129,354	254,318	21,823,036	5,138,898	2,306,593	58,703,112	21,823,036	121,335,843	254,318
2026	550,251	$87.52	48,157,939	0	2,872,000	5,502,507	8,374,507	10,208,477	550,251	116,642	216,805	18,974,731	5,241,676	1,659,603	43,781,356	18,974,731	140,310,574	216,805
2027	478,799	$89.26	42,737,628	0	2,800,000	4,787,993	7,587,993	9,434,716	478,799	105,699	186,550	16,651,456	5,346,510	1,116,298	31,269,433	16,651,456	156,962,030	186,550
2028	418,402	$91.03	38,087,150	0	2,584,000	4,184,022	6,768,022	8,583,488	418,402	94,293	162,055	14,751,831	5,453,440	657,809	20,729,225	14,751,831	171,713,861	162,055
2029	340,415	$92.85	31,607,492	0	2,404,000	3,404,146	5,808,146	7,513,456	340,415	80,920	129,747	12,047,018	0	268,983	6,246,377	6,246,377	177,960,238	67,274
2030	261,997	$94.69	24,808,526	0	2,332,000	2,619,973	4,951,973	6,534,023	261,997	69,004	96,496	9,137,251	0	0	0	0	177,960,238	0
2031	178,776	$96.58	17,266,210	0	1,900,000	1,787,762	3,687,762	4,963,243	178,776	51,390	63,693	6,151,484	0	0	0	0	177,960,238	0
2032	125,444	$98.51	12,357,674	0	1,720,000	1,254,438	2,974,438	4,003,203	125,444	40,637	42,403	4,177,236	0	0	0	0	177,960,238	0
2033	78,480	$100.48	7,885,823	0	1,504,000	784,801	2,288,801	3,080,425	78,480	30,657	23,912	2,402,699	0	0	0	0	177,960,238	0
2034	35,813	$102.49	3,670,564	0	1,252,000	358,134	1,610,134	2,167,028	35,813	21,143	7,335	751,768	0	0	0	0	177,960,238	0
2035	0	$104.54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	177,960,238	0
2036	0	$106.63	0	0	0	0	0	0	0	0	0	0	0	0	0	0	177,960,238	0
2037	0	$108.76	0	0	0	0	0	0	0	0	0	0	0	0	0	0	177,960,238	0
2038	0	$110.94	0	0	0	0	0	0	0	0	0	0	0	0	0	0	177,960,238	0
2039	0	$113.16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	177,960,238	0
2040	0	$115.42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	177,960,238	0
2041	0	$117.73	0	0	0	0	0	0	0	0	0	0	0	0	0	0	177,960,238	0
Total	**6,811,292**		**573,985,254**	**315,000**	**47,001,333**	**68,112,925**	**115,114,258**	**136,037,152**	**6,496,292**	**1,643,423**	**2,426,435**	**206,947,354**	**160,611,703**	**17,348,535**		**177,960,238**		**2,120,773**
				5%	1,000,000	$10.00				100%	50%			4.50%				
				15%	$/yr	$/STB												

* Note Cumulative compensatory petroleum maximum is 315,000 STB

4 production mo. First year

Chapman Petroleum Engineering Ltd.

Table 4b
Page 3

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved

Production Splits - Profit Oil

	Total Profit Oil		Contractors Share						Total Contractors Profit Oil	Total Contractors Profit Oil Revenue	Cumulative Contractor's Profit Oil Revenue
Year	STB/yr.	"R" Factor	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	$/yr.	$/yr.
2016	3,512	0.00	1,932	0	0	0	0	0	1,932	97,548	97,548
2017	3,993	0.00	2,196	0	0	0	0	0	2,196	121,893	219,442
2018	11,192	0.00	6,156	0	0	0	0	0	6,156	403,199	622,641
2019	52,542	0.00	28,898	0	0	0	0	0	28,898	2,037,330	2,659,971
2020	144,511	0.26	79,481	0	0	0	0	0	79,481	6,000,832	8,660,803
2021	212,638	0.38	116,951	0	0	0	0	0	116,951	9,180,640	17,841,442
2022	247,271	0.55	135,999	0	0	0	0	0	135,999	11,083,917	28,925,360
2023	292,324	0.73	160,778	0	0	0	0	0	160,778	13,264,197	42,189,556
2024	284,485	0.95	156,467	0	0	0	0	0	156,467	13,165,129	55,354,685
2025	254,318	1.11	139,875	0	0	0	0	0	139,875	12,002,670	67,357,355
2026	216,805	1.31	0	108,402	0	0	0	0	108,402	9,487,365	76,844,720
2027	186,550	1.45	0	93,275	0	0	0	0	93,275	8,325,728	85,170,448
2028	162,055	1.56	0	81,027	0	0	0	0	81,027	7,375,915	92,546,364
2029	192,220	1.65	0	96,110	0	0	0	0	96,110	8,923,830	101,470,194
2030	192,993	1.74	0	96,496	0	0	0	0	96,496	9,137,251	110,607,445
2031	127,386	1.80	0	0	57,324	0	0	0	57,324	5,536,335	116,143,780
2032	84,807	1.83	0	0	38,163	0	0	0	38,163	3,759,512	119,903,292
2033	47,824	1.85	0	0	21,521	0	0	0	21,521	2,162,429	122,065,722
2034	14,670	1.87	0	0	6,601	0	0	0	6,601	676,591	122,742,313
2035	0	1.87	0	0	0	0	0	0	0	0	122,742,313
2036	0	1.87	0	0	0	0	0	0	0	0	122,742,313
2037	0	1.87	0	0	0	0	0	0	0	0	122,742,313
2038	0	1.87	0	0	0	0	0	0	0	0	122,742,313
2039	0	1.87	0	0	0	0	0	0	0	0	122,742,313
2040	0	1.87	0	0	0	0	0	0	0	0	122,742,313
2041	0	1.87	0	0	0	0	0	0	0	0	122,742,313
Total	**2,732,096**		**828,733**	**475,311**	**123,609**	**0**	**0**	**0**	**1,427,653**	**122,742,313**	
			0.55	0.50	0.45	0.35	0.25	0.80			
			0<R<=1.25	1.25<R<=1.75	1.75<R<=2.00	2.00<R<=2.50	2.50<R<=2.75	2.75<R			

Chapman Petroleum Engineering Ltd.

Table 4b
Page 4

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved

Production Streams and Revenues

	Contractor' Share					Cost Schedule				Contractor's
Year	Operating Cost Oil STB/yr.	Capital Cost Oil STB/yr.	Net Profit Oil STB/yr.	Total Net Oil STB/yr.	Oil Price $/STB	Contractor's Total Revenue (Operating Cash Flow) $/yr.	Total Operating Costs $/yr.	Net Operating Income $/yr.	Total Capital Costs $/yr.	Net Cash Flow $/yr.
2016	28,476	0	1,932	30,408	50.50	1,535,602	1,438,053	97,548	0	97,548
2017	77,941	0	2,196	80,137	55.50	4,447,615	4,325,722	121,893	0	121,893
2018	60,081	0	6,156	66,237	65.50	4,338,525	3,935,325	403,199	0	403,199
2019	73,173	52,542	28,898	154,614	70.50	10,900,255	5,158,689	5,741,566	24,407,784	(18,666,218)
2020	105,686	144,511	79,481	329,678	75.50	24,890,724	7,979,289	16,911,435	37,235,666	(20,324,231)
2021	133,938	212,638	116,951	463,527	78.50	36,386,859	10,514,147	25,872,712	28,485,285	(2,612,573)
2022	143,103	247,271	135,999	526,373	81.50	42,899,377	11,662,883	31,236,494	19,369,994	11,866,500
2023	141,610	292,324	160,778	594,712	82.50	49,063,711	11,682,793	37,380,918	14,818,045	22,562,873
2024	139,675	284,485	156,467	580,628	84.14	48,854,010	11,752,283	37,101,727	15,114,406	21,987,321
2025	129,354	254,318	139,875	523,548	85.81	44,925,614	11,099,908	33,825,705	5,138,898	28,686,807
2026	116,642	216,805	108,402	441,848	87.52	38,670,573	10,208,477	28,462,096	5,241,676	23,220,420
2027	105,699	186,550	93,275	385,524	89.26	34,411,900	9,434,716	24,977,184	5,346,510	19,630,675
2028	94,293	162,055	81,027	337,375	91.03	30,711,234	8,583,488	22,127,746	5,453,440	16,674,307
2029	80,920	67,274	96,110	244,304	92.85	22,683,662	7,513,456	15,170,207	0	15,170,207
2030	69,004	0	96,496	165,501	94.69	15,671,275	6,534,023	9,137,251	0	9,137,251
2031	51,390	0	57,324	108,714	96.58	10,499,578	4,963,243	5,536,335	0	5,536,335
2032	40,637	0	38,163	78,800	98.51	7,762,715	4,003,203	3,759,512	0	3,759,512
2033	30,657	0	21,521	52,177	100.48	5,242,854	3,080,425	2,162,429	0	2,162,429
2034	21,143	0	6,601	27,745	102.49	2,843,619	2,167,028	676,591	0	676,591
2035	0	0	0	0	104.54	0	0	0	0	0
2036	0	0	0	0	106.63	0	0	0	0	0
2037	0	0	0	0	108.76	0	0	0	0	0
2038	0	0	0	0	110.94	0	0	0	0	0
2039	0	0	0	0	113.16	0	0	0	0	0
2040	0	0	0	0	115.42	0	0	0	0	0
2041	0	0	0	0	117.73	0	0	0	0	0
Total	**1,643,423**	**2,120,773**	**1,427,653**	**5,191,849**		**436,739,702**	**136,037,152**	**300,702,551**	**160,611,703**	**140,090,847**
Company Net Share of Reserves			**80%**	**4,153,479**						

Table 4b
Page 5

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved

Company Cash Flow Analysis
Net to Company Before and After Income Tax

		Undiscounted	Discounted @			
	Company Net Oil	Net Cash Flow (Profit)	5%	10%	15%	20%
Year	STB/yr.	$/yr.	$	$	$	$
2016	24,326	78,039	77,409	76,814	76,249	75,712
2017	64,110	97,515	93,631	90,072	86,798	83,775
2018	52,990	322,559	294,965	270,855	249,661	230,925
2019	123,691	(14,932,975)	(13,005,200)	(11,399,370)	(10,050,539)	(8,908,936)
2020	263,743	(16,259,385)	(13,486,074)	(11,283,555)	(9,515,887)	(8,083,555)
2021	370,821	(2,090,058)	(1,651,013)	(1,318,583)	(1,063,667)	(865,915)
2022	421,098	9,493,200	7,141,928	5,444,639	4,201,091	3,277,543
2023	475,769	18,050,298	12,932,959	9,411,269	6,946,020	5,193,246
2024	464,502	17,589,857	12,002,909	8,337,453	5,885,944	4,217,311
2025	418,838	22,949,446	14,914,446	9,888,960	6,677,720	4,585,263
2026	353,479	18,576,336	11,497,560	7,276,890	4,700,220	3,092,936
2027	308,419	15,704,540	9,257,240	5,592,658	3,455,298	2,178,988
2028	269,900	13,339,445	7,488,672	4,318,552	2,552,115	1,542,361
2029	195,444	12,136,165	6,488,723	3,571,817	2,019,045	1,169,361
2030	132,401	7,309,801	3,722,151	1,955,782	1,057,480	586,937
2031	86,971	4,429,068	2,147,887	1,077,295	557,162	296,358
2032	63,040	3,007,610	1,389,093	665,045	328,997	167,705
2033	41,742	1,729,944	760,944	347,751	164,553	80,385
2034	22,196	541,273	226,750	98,915	44,770	20,959
2035	0	0	0	0	0	0
2036	0	0	0	0	0	0
2037	0	0	0	0	0	0
2038	0	0	0	0	0	0
2039	0	0	0	0	0	0
2040	0	0	0	0	0	0
2041	0	0	0	0	0	0
Total	**4,153,479**	**112,072,678**	**62,294,979**	**34,423,258**	**18,373,031**	**8,941,357**
	80.00%	80.00%				

Table 4c

Page 1

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable Developed Producing

Production and Capital Forecast

	Field Production Profile							Total Oil Production			Capital Expenditures				
	Jafarli Carbonate	Muradkanli Volcanic	Muradkanli Carbonate	Days On	Jafarli Carbonate	Muradkanli Volcanic	Muradkanli Carbonate		Well Count		Exploration	Drilling & Completion	Well Fac. & Tie-ins	Central Facilities	Total Capital
Year	STB/d	STB/d	STB/d		STB/yr.	STB/yr.	STB/yr.	STB/yr.		STB/d	$M	$M	$M	$M	$M
2016	70	136	70	122	8,540	16,592	8,540	33,672	64	276	0	0	0	0	0
2017	66	130	66	365	24,233	47,326	24,189	95,748	64	262	0	0	0	0	0
2018	61	121	61	365	22,358	44,013	22,254	88,625	59	243	0	0	0	0	0
2019	57	112	56	365	20,628	40,932	20,473	82,034	54	225	0	0	0	0	0
2020	52	104	52	365	19,032	38,067	18,835	75,934	49	208	0	0	0	0	0
2021	48	97	47	365	17,560	35,402	17,329	70,290	44	193	0	0	0	0	0
2022	44	90	44	365	16,201	32,924	15,942	65,067	39	178	0	0	0	0	0
2023	41	84	40	365	14,947	30,619	14,667	60,234	34	165	0	0	0	0	0
2024	38	78	37	365	13,791	28,476	13,494	55,760	34	153	0	0	0	0	0
2025	35	73	34	365	12,724	26,483	12,414	51,620	29	141	0	0	0	0	0
2026	32	67	31	365	11,739	24,629	11,421	47,789	29	131	0	0	0	0	0
2027	30	63	29	365	10,831	22,905	10,507	44,243	24	121	0	0	0	0	0
2028	27	58	26	365	9,993	21,302	9,667	40,961	24	112	0	0	0	0	0
2029	25	54	24	365	9,220	19,810	8,893	37,923	24	104	0	0	0	0	0
2030	23	50	22	365	8,506	18,424	8,182	35,112	18	96	0	0	0	0	0
2031	22	47	21	365	7,848	17,134	7,527	32,509	18	89	0	0	0	0	0
2032	20	44	19	365	7241	15935	6925	30,101	14	82	0	0	0	0	0
2033	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2034	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2035	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2036	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2037	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2038	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2039	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2040	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
2041	0	0	0	365	0	0	0	0	0	0	0	0	0	0	0
Total					**235,392**	**480,972**	**231,259**	**947,623**			**0**	**0**	**0**	**0**	**0**
Decline	7.74%	7.00%	8.00%												

Table 4c
Page 2

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable Developed Producing

Production Splits - Cost Oil

					Operating Costs - $/yr.						Capital Cost Recovery							
	Gross Production	Oil Price	Gross Revenue	*Compen-satory Petroleum	Fixed	Variable	Total	Escalated Opex	Available Cost Oil	Operating Cost Oil	Available Capital Cost Oil	Available Capital Cost Oil Revenue Ceiling	Annual Capital Costs For Recovery	Interest on Outstanding Capital	Cumulative Outstanding Capital Costs	Annual Capital Cost Recovery	Cumulative Capital Cost Recovery	Capital Cost Oil
Year	STB/yr.	$/STB	$/yr.	STB/yr.	$/yr.	$/yr.	$/yr.		STB/yr.	STB/yr.	STB/yr.	$/yr	$/yr.	$/yr.	$/yr.	$/yr.	$/yr.	STB/yr.
2016	33,672	$50.50	1,700,436	1,684	1,101,333	336,720	1,438,053	1,438,053	31,988	28,476	1,756	88,680	0	0	0	0	0	0
2017	95,748	$55.50	5,314,005	12,001	3,304,000	957,478	4,261,478	4,346,708	83,747	78,319	2,714	150,613	0	0	0	0	0	0
2018	88,625	$65.50	5,804,928	13,294	3,124,000	886,249	4,010,249	4,172,263	75,331	63,699	5,816	380,963	0	0	0	0	0	0
2019	82,034	$70.50	5,783,374	12,305	2,944,000	820,337	3,764,337	3,994,744	69,729	56,663	6,533	460,562	0	0	0	0	0	0
2020	75,934	$75.50	5,733,050	11,390	2,764,000	759,344	3,523,344	3,813,781	64,544	50,514	7,015	529,656	0	0	0	0	0	0
2021	70,290	$78.50	5,517,788	10,544	2,584,000	702,903	3,286,903	3,629,006	59,747	46,229	6,759	530,557	0	0	0	0	0	0
2022	65,067	$81.50	5,302,975	9,760	2,404,000	650,672	3,054,672	3,440,057	55,307	42,209	6,549	533,736	0	0	0	0	0	0
2023	60,234	$82.50	4,969,269	9,035	2,224,000	602,336	2,826,336	3,246,571	51,199	39,352	5,923	488,654	0	0	0	0	0	0
2024	55,760	$84.14	4,691,671	8,364	2,224,000	557,603	2,781,603	3,259,091	47,396	38,734	4,331	364,415	0	0	0	0	0	0
2025	51,620	$85.81	4,429,548	7,743	2,044,000	516,204	2,560,204	3,059,681	43,877	35,656	4,110	352,718	0	0	0	0	0	0
2026	47,789	$87.52	4,182,494	7,168	2,044,000	477,890	2,521,890	3,074,170	40,621	35,125	2,748	240,475	0	0	0	0	0	0
2027	44,243	$89.26	3,949,128	6,636	1,864,000	442,430	2,306,430	2,867,756	37,607	32,128	2,739	244,502	0	0	0	0	0	0
2028	40,961	$91.03	3,728,681	6,144	1,864,000	409,610	2,273,610	2,883,487	34,817	31,676	1,570	142,946	0	0	0	0	0	0
2029	37,923	$92.85	3,521,185	5,689	1,864,000	379,234	2,243,234	2,901,862	32,235	31,253	491	45,573	0	0	0	0	0	0
2030	35,112	$94.69	3,324,737	5,267	1,648,000	351,118	1,999,118	2,637,794	29,845	27,857	994	94,116	0	0	0	0	0	0
2031	32,509	$96.58	3,139,760	4,876	1,648,000	325,094	1,973,094	2,655,525	27,633	27,496	69	6,635	0	0	0	0	0	0
2032	30,101	$98.51	2,965,210	4,515	1,504,000	301,006	1,805,006	2,477,886	25,586	25,154	216	21,271	0	0	0	0	0	0
2033	0	$100.48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2034	0	$102.49	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2035	0	$104.54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2036	0	$106.63	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2037	0	$108.76	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2038	0	$110.94	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2039	0	$113.16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2040	0	$115.42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2041	0	$117.73	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**947,623**		**74,058,239**	**136,415**	**37,153,333**	**9,476,227**	**46,629,561**	**53,898,436**	**811,207**	**690,542**	**60,333**	**4,676,071**	**0**	**0**		**0**		**0**
				5%	1,000,000	$10.00				100%	50%			4.50%				
				15%	$/yr	$/STB												

* Note Cumulative compensatory petroleum maximum is 315,000 STB

Fixed costs are reduced to $2.1 million/year in 2024 since only 16 wells are active.

Chapman Petroleum Engineering Ltd.

Table 4c
Page 3

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable Developed Producing

Production Splits - Profit Oil

	Total Profit Oil		Contractors Share						Total Contractors Profit Oil	Total Contractors Profit Oil Revenue	Cumulative Contractor's Profit Oil Revenue
Year	STB/yr.	"R" Factor	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	$/yr.	$/yr.
2016	3,512	0.00	1,932	0	0	0	0	0	1,932	97,548	97,548
2017	5,428	0.00	2,985	0	0	0	0	0	2,985	165,674	263,223
2018	11,632	0.00	6,398	0	0	0	0	0	6,398	419,060	682,282
2019	13,066	0.00	7,186	0	0	0	0	0	7,186	506,618	1,188,901
2020	14,031	0.00	7,717	0	0	0	0	0	7,717	582,621	1,771,522
2021	13,517	0.00	7,435	0	0	0	0	0	7,435	583,612	2,355,134
2022	13,098	0.00	7,204	0	0	0	0	0	7,204	587,110	2,942,244
2023	11,846	0.00	6,515	0	0	0	0	0	6,515	537,519	3,479,763
2024	8,662	0.00	4,764	0	0	0	0	0	4,764	400,856	3,880,619
2025	8,221	0.00	4,521	0	0	0	0	0	4,521	387,989	4,268,608
2026	5,495	0.00	3,022	0	0	0	0	0	3,022	264,522	4,533,131
2027	5,478	0.00	3,013	0	0	0	0	0	3,013	268,952	4,802,083
2028	3,141	0.00	1,727	0	0	0	0	0	1,727	157,240	4,959,323
2029	982	0.00	540	0	0	0	0	0	540	50,130	5,009,453
2030	1,988	0.00	1,093	0	0	0	0	0	1,093	103,528	5,112,981
2031	137	0.00	76	0	0	0	0	0	76	7,299	5,120,279
2032	432	0.00	238	0	0	0	0	0	238	23,398	5,143,678
2033	0	0.00	0	0	0	0	0	0	0	0	5,143,678
2034	0	0.00	0	0	0	0	0	0	0	0	5,143,678
2035	0	0.00	0	0	0	0	0	0	0	0	5,143,678
2036	0	0.00	0	0	0	0	0	0	0	0	5,143,678
2037	0	0.00	0	0	0	0	0	0	0	0	5,143,678
2038	0	0.00	0	0	0	0	0	0	0	0	5,143,678
2039	0	0.00	0	0	0	0	0	0	0	0	5,143,678
2040	0	0.00	0	0	0	0	0	0	0	0	5,143,678
2041	0	0.00	0	0	0	0	0	0	0	0	5,143,678
Total	**120,666**		**66,366**	**0**	**0**	**0**	**0**	**0**	**66,366**	**5,143,678**	
			0.55	0.50	0.45	0.35	0.25	0.80			
			0<R<=1.25	1.25<R<=1.75	1.75<R<=2.00	2.00<R<=2.50	2.50<R<=2.75	2.75<R			

Table 4c
Page 4

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable Developed Producing

Production Streams and Revenues

	Contractor' Share					Cost Schedule				Contractor's
Year	Operating Cost Oil	Capital Cost Oil	Net Profit Oil	Total Net Oil	Oil Price	Contractor's Total Revenue (Operating Cash Flow)	Total Operating Costs	Net Operating Income	Total Capital Costs	Net Cash Flow
	STB/yr.	STB/yr.	STB/yr.	STB/yr.	$/STB	$/yr.	$/yr.	$/yr.	$/yr.	$/yr.
2016	28,476	0	1,932	30,408	50.50	1,535,602	1,438,053	97,548	0	97,548
2017	78,319	0	2,985	81,304	55.50	4,512,382	4,346,708	165,674	0	165,674
2018	63,699	0	6,398	70,097	65.50	4,591,322	4,172,263	419,060	0	419,060
2019	56,663	0	7,186	63,849	70.50	4,501,362	3,994,744	506,618	0	506,618
2020	50,514	0	7,717	58,230	75.50	4,396,402	3,813,781	582,621	0	582,621
2021	46,229	0	7,435	53,664	78.50	4,212,619	3,629,006	583,612	0	583,612
2022	42,209	0	7,204	49,413	81.50	4,027,166	3,440,057	587,110	0	587,110
2023	39,352	0	6,515	45,868	82.50	3,784,090	3,246,571	537,519	0	537,519
2024	38,734	0	4,764	43,498	84.14	3,659,947	3,259,091	400,856	0	400,856
2025	35,656	0	4,521	40,178	85.81	3,447,670	3,059,681	387,989	0	387,989
2026	35,125	0	3,022	38,148	87.52	3,338,692	3,074,170	264,522	0	264,522
2027	32,128	0	3,013	35,141	89.26	3,136,708	2,867,756	268,952	0	268,952
2028	31,676	0	1,727	33,404	91.03	3,040,728	2,883,487	157,240	0	157,240
2029	31,253	0	540	31,793	92.85	2,951,992	2,901,862	50,130	0	50,130
2030	27,857	0	1,093	28,950	94.69	2,741,322	2,637,794	103,528	0	103,528
2031	27,496	0	76	27,571	96.58	2,662,824	2,655,525	7,299	0	7,299
2032	25,154	0	238	25,391	98.51	2,501,285	2,477,886	23,398	0	23,398
2033	0	0	0	0	100.48	0	0	0	0	0
2034	0	0	0	0	102.49	0	0	0	0	0
2035	0	0	0	0	104.54	0	0	0	0	0
2036	0	0	0	0	106.63	0	0	0	0	0
2037	0	0	0	0	108.76	0	0	0	0	0
2038	0	0	0	0	110.94	0	0	0	0	0
2039	0	0	0	0	113.16	0	0	0	0	0
2040	0	0	0	0	115.42	0	0	0	0	0
2041	0	0	0	0	117.73	0	0	0	0	0
Total	**690,542**	**0**	**66,366**	**756,908**		**59,042,113**	**53,898,436**	**5,143,678**	**0**	**5,143,678**
Company Net Share of Reserves			**80%**	**605,526**						

Table 4c
Page 5

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable Developed Producing

Company Cash Flow Analysis

		Net to Company Before and After Income Tax				
		Undiscounted	Discounted @			
	Company Net Oil	Net Cash Flow (Profit)	5%	10%	15%	20%
Year	STB/yr.	$/yr.	$	$	$	$
2016	24,326	78,039	77,409	76,814	76,249	75,712
2017	65,043	132,540	127,261	122,424	117,973	113,864
2018	56,077	335,248	306,567	281,509	259,482	240,008
2019	51,079	405,294	352,973	309,389	272,781	241,797
2020	46,584	466,097	386,596	323,458	272,786	231,726
2021	42,931	466,890	368,813	294,553	237,608	193,433
2022	39,530	469,688	353,356	269,380	207,854	162,160
2023	36,694	430,015	308,104	224,206	165,476	123,720
2024	34,799	320,685	218,828	152,002	107,308	76,887
2025	32,142	310,391	201,718	133,748	90,316	62,016
2026	30,518	211,618	130,978	82,897	53,544	35,234
2027	28,113	215,162	126,830	76,623	47,340	29,853
2028	26,723	125,792	70,619	40,724	24,067	14,545
2029	25,435	40,104	21,442	11,803	6,672	3,864
2030	23,160	82,822	42,173	22,160	11,982	6,650
2031	22,057	5,839	2,832	1,420	735	391
2032	20,313	18,719	8,645	4,139	2,048	1,044
2033	0	0	0	0	0	0
2034	0	0	0	0	0	0
2035	0	0	0	0	0	0
2036	0	0	0	0	0	0
2037	0	0	0	0	0	0
2038	0	0	0	0	0	0
2039	0	0	0	0	0	0
2040	0	0	0	0	0	0
2041	0	0	0	0	0	0
Total	**605,526**	**4,114,942**	**3,105,144**	**2,427,250**	**1,954,219**	**1,612,904**
	80.00%	80.00%				

Table 4d

Page 1

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable Developed

Production and Capital Forecast

	Single Well Work Over Production Profile for Probable Developed Non-Producing								Work Over-Developement Program										Workover Capital Expenditures					
	High Potential	Fair Potential	Maykop	Days On	High Potential	Fair Potential	Maykop	Well Count	# Wells High Potential	# Wells High Potential	# Wells Maykop	# Wells Fair Potential	# Wells Fair Potential	Total PBNP Probable Developed Non-P	Total RA P+P Developed Producing	Total 2 P Proved +Probable Developed	Total 2P Developed well count		Workover For High Potential	Workover For Fair Potential	Workover For Maykop	Well Fac. & Tie-ins	Central Facilities	Total Capital
Year	STB/d	STB/d	STB/d		STB/yr.	STB/yr.	STB/yr.		10	11	5	10	8	STB/yr.	STB/yr.	STB/yr.		STB/d	$M	$M	$M	$M	$M	$M
2016	15.00	10.00	40.00	182	2730	1820	7280	10		0	0	0	0	0	33,672	33,672	64	92	0	0	0	0	0	0
2017	13.65	9.10	35.50	365	4,982	3,322	12,958	26	27,300	0	0	0	0	27,300	95,748	123,048	74	337	250	0	0	0	0	250
2018	12.01	8.01	30.18	365	4,384	2,923	11,014	44	49,823	30,030	0	0	0	79,853	88,625	168,477	80	462	275	0	0	0	0	275
2019	10.57	7.05	25.65	365	3,858	2,572	9,362	44	43,844	54,805	36,400	18,200	0	153,249	82,034	235,282	90	645	0	320	750	0	0	1,070
2020	9.30	6.20	21.80	365	3,395	2,264	7,958	44	38,583	48,228	64,788	33,215	14,560	199,373	75,934	275,306	93	754	0	256	0	0	0	256
2021	8.19	5.46	18.53	365	2,988	1,992	6,754	44	33,953	42,441	55,069	29,229	26,572	187,264	70,290	257,554	88	706	0	0	0	0	0	0
2022	7.20	4.80	15.75	365	2,629	1,753	5,749	44	29,878	37,348	46,809	25,722	23,383	163,140	65,067	228,207	83	625	0	0	0	0	0	0
2023	6.34	4.23	13.39	365	2,314	1,543	4,887	44	26,293	32,866	39,788	22,635	20,577	142,159	60,234	202,393	78	555	0	0	0	0	0	0
2024	5.58	3.72	11.38	365	2,036	1,357	4,154	44	23,138	28,922	33,819	19,919	18,108	123,906	55,760	179,667	78	492	0	0	0	0	0	0
2025	0.00	0.00	9.67	365	0	0	3,531	34	20,361	25,452	28,747	17,529	15,935	108,023	51,620	159,643	73	437	0	0	0	0	0	0
2026	0.00	0.00	8.22	365	0	0	3,001	23	0	22,397	24,435	15,425	14,023	76,280	47,789	124,069	63	340	0	0	0	0	0	0
2027	0.00	0.00	6.99	365	0	0	2,551	5	0	0	20,769	13,574	12,340	46,684	44,243	90,927	47	249	0	0	0	0	0	0
2028	0.00	0.00	0.00	365	0	0	0	5	0	0	17,654	0	10,859	28,513	40,961	69,474	37	190	0	0	0	0	0	0
2029	0.00	0.00	0.00	365	0	0	0	0	0	0	15,006	0	0	15,006	37,923	52,929	29	145	0	0	0	0	0	0
2030	0.00	0.00	0.00	365	0	0	0	0	0	0	12,755	0	0	12,755	35,112	47,867	23	131	0	0	0	0	0	0
2031	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	32,509	32,509	18	89	0	0	0	0	0	0
2032	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	30,101	30,101	14	82	0	0	0	0	0	0
2033	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	27,871	27,871	12	76	0	0	0	0	0	0
2034	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	25,807	25,807	9	71	0	0	0	0	0	0
2035	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2036	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2037	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2038	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2039	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2040	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2041	0.00	0.00	0.00	365	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total					**29,317**	**19,545**	**79,208**		**293,172**	**322,489**	**396,038**	**195,448**	**156,358**	**1,363,505**	**1,001,301**	**2,364,806**			**525**	**576**	**750**	**0**	**0**	**1,851**

Decline 12.00% 12.00% 15.00%

Chapman Petroleum Engineering Ltd.

Table 4d
Page 2
Zenith Energy Ltd.
September 1, 2016
Azerbaijan Project Particulars-Total Proved Plus Probable Developed
Production Splits - Cost Oil

					Operating Costs - $/yr.								Capital Cost Recovery					
	Gross Production	Oil Price	Gross Revenue	*Compen-satory Petroleum	Fixed	Variable	Total	Escalated Opex	Available Cost Oil	Operating Cost Oil	Available Capital Cost Oil	Available Capital Cost Oil Revenue Ceiling	Annual Capital Costs For Recovery	Interest on Outstanding Capital	Cumulative Outstanding Capital Costs	Annual Capital Cost Recovery	Cumulative Capital Cost Recovery	Capital Cost Oil
Year	STB/yr.	$/STB	$/yr.	STB/yr.	$/yr.	$/yr.	$/yr.	$/yr.	STB/yr.	STB/yr.	STB/yr.	$/yr	$/yr.	$/yr.	$/yr.	$/yr.	$/yr.	STB/yr.
2016	33,672	$50.50	1,700,436	1,684	1,101,333	336,720	1,438,053	1,438,053	31,988	28,476	1,756	88,680	0	0	0	0	0	0
2017	123,048	$55.50	6,829,155	15,423	3,664,000	1,230,478	4,894,478	4,992,368	107,625	89,953	8,836	490,402	255,000	0	255,000	255,000	255,000	4,595
2018	168,477	$65.50	11,035,267	25,272	3,880,000	1,684,774	5,564,774	5,789,590	143,206	88,391	27,408	1,795,193	286,110	0	286,110	286,110	541,110	4,368
2019	235,282	$70.50	16,587,397	35,292	4,240,000	2,352,822	6,592,822	6,996,356	199,990	99,239	50,375	3,551,466	1,135,493	0	1,135,493	1,135,493	1,676,603	16,106
2020	275,308	$75.50	20,785,728	41,296	4,348,000	2,753,077	7,101,077	7,686,434	234,012	101,807	66,102	4,990,718	277,103	0	277,103	277,103	1,953,705	3,670
2021	257,554	$78.50	20,218,013	38,633	4,168,000	2,575,543	6,743,543	7,445,416	218,921	94,846	62,038	4,869,947	0	0	0	0	1,953,705	0
2022	228,207	$81.50	18,598,905	34,231	3,988,000	2,282,074	6,270,074	7,061,122	193,976	86,640	53,668	4,373,974	0	0	0	0	1,953,705	0
2023	202,393	$82.50	16,697,399	30,359	3,808,000	2,023,927	5,831,927	6,699,051	172,034	81,201	45,417	3,746,869	0	0	0	0	1,953,705	0
2024	179,667	$84.14	15,117,158	26,950	3,808,000	1,796,667	5,604,667	6,566,761	152,717	78,046	37,336	3,141,412	0	0	0	0	1,953,705	0
2025	159,643	$85.81	13,699,008	23,947	3,628,000	1,596,435	5,224,435	6,243,683	135,697	72,762	31,468	2,700,237	0	0	0	0	1,953,705	0
2026	124,069	$87.52	10,858,520	18,610	3,268,000	1,240,690	4,508,690	5,496,068	105,459	62,798	21,330	1,866,837	0	0	0	0	1,953,705	0
2027	90,927	$89.26	8,116,115	13,639	2,692,000	909,267	3,601,267	4,477,723	77,288	50,165	13,561	1,210,488	0	0	0	0	1,953,705	0
2028	69,474	$91.03	6,324,248	10,421	2,332,000	694,743	3,026,743	3,838,642	59,053	42,169	8,442	768,484	0	0	0	0	1,953,705	0
2029	52,929	$92.85	4,914,481	0	2,044,000	529,293	2,573,293	3,328,828	52,929	35,852	8,539	792,827	0	0	0	0	1,953,705	0
2030	47,867	$94.69	4,532,508	0	1,828,000	478,668	2,306,668	3,043,599	47,867	32,143	7,862	744,454	0	0	0	0	1,953,705	0
2031	32,509	$96.58	3,139,760	0	1,648,000	325,094	1,973,094	2,655,525	32,509	27,496	2,507	242,117	0	0	0	0	1,953,705	0
2032	30,101	$98.51	2,965,210	0	1,504,000	301,006	1,805,006	2,477,886	30,101	25,154	2,473	243,662	0	0	0	0	1,953,705	0
2033	27,871	$100.48	2,800,468	0	1,432,000	278,709	1,710,709	2,395,406	27,871	23,840	2,016	202,531	0	0	0	0	1,953,705	0
2034	25,807	$102.49	2,644,955	0	1,324,000	258,070	1,582,070	2,259,585	25,807	22,047	1,880	192,685	0	0	0	0	1,953,705	0
2035	0	$104.54	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,953,705	0
2036	0	$106.63	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,953,705	0
2037	0	$108.76	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,953,705	0
2038	0	$110.94	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,953,705	0
2039	0	$113.16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,953,705	0
2040	0	$115.42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,953,705	0
2041	0	$117.73	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,953,705	0
Total	**2,364,806**		**187,564,730**	**315,757**	**54,705,333**	**23,648,057**	**78,353,390**	**90,892,097**	**2,049,049**	**1,143,021**	**453,014**	**36,012,982**	**1,953,705**	**0**		**1,953,705**		**28,739**
				5%	1,000,000	$10.00				100%	50%			4.50%				
				15%	$/yr	$/STB												

* Note Cumulative compensatory petroleum maximum is 315,000 STB
Fixed costs are reduced to $2.1 million/year in 2027 since only 21 wells are active.

Table 4d
Page 3
Zenith Energy Ltd.
September 1, 2016
Azerbaijan Project Particulars-Total Proved Plus Probable Developed
Production Splits - Profit Oil

	Total Profit Oil		Contractors Share						Total Contractors Profit Oil	Total Contractors Profit Oil Revenue	Cumulative Contractor's Profit Oil Revenue
Year	STB/yr.	"R" Factor	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	$/yr.	$/yr.
2016	$3,512	0.00	$0	$0	$0	$0	0	0	0	0	0
2017	$13,078	0.00	$9,124	$0	$0	$0	0	0	9,124	506,399	506,399
2018	$50,447	2.99	$0	$0	$0	$0	0	40,358	40,358	2,643,421	3,149,820
2019	$84,645	6.82	$0	$0	$0	$0	0	67,716	67,716	4,773,951	7,923,771
2020	$128,534	5.73	$0	$0	$0	$0	0	102,827	102,827	7,763,466	15,687,238
2021	$124,075	9.03	$0	$0	$0	$0	0	99,260	99,260	7,791,916	23,479,153
2022	$107,337	13.02	$0	$0	$0	$0	0	85,869	85,869	6,998,358	30,477,511
2023	$90,833	16.60	$0	$0	$0	$0	0	72,667	72,667	5,994,990	36,472,501
2024	$74,671	19.67	$0	$0	$0	$0	0	59,737	59,737	5,026,258	41,498,760
2025	$62,935	22.24	$0	$0	$0	$0	0	50,348	50,348	4,320,379	45,819,139
2026	$42,661	24.45	$0	$0	$0	$0	0	34,129	34,129	2,986,939	48,806,078
2027	$27,123	25.98	$0	$0	$0	$0	0	21,698	21,698	1,936,780	50,742,858
2028	$16,884	26.97	$0	$0	$0	$0	0	13,507	13,507	1,229,575	51,972,433
2029	$17,078	27.60	$0	$0	$0	$0	0	13,662	13,662	1,268,522	53,240,955
2030	$15,724	28.25	$0	$0	$0	$0	0	12,579	12,579	1,191,126	54,432,081
2031	$5,014	28.86	$0	$0	$0	$0	0	4,011	4,011	387,388	54,819,469
2032	$4,947	29.06	$0	$0	$0	$0	0	3,958	3,958	389,859	55,209,328
2033	$4,031	29.26	$0	$0	$0	$0	0	3,225	3,225	324,050	55,533,378
2034	$3,760	29.42	$0	$0	$0	$0	0	3,008	3,008	308,296	55,841,674
2035	$0	29.58	$0	$0	$0	$0	0	0	0	0	55,841,674
2036	$0	29.58	$0	$0	$0	$0	0	0	0	0	55,841,674
2037	$0	29.58	$0	$0	$0	$0	0	0	0	0	55,841,674
2038	$0	29.58	$0	$0	$0	$0	0	0	0	0	55,841,674
2039	$0	29.58	$0	$0	$0	$0	0	0	0	0	55,841,674
2040	$0	29.58	$0	$0	$0	$0	0	0	0	0	55,841,674
2041	$0	29.58	$0	$0	$0	$0	0	0	0	0	55,841,674
Total	877,288		9,124	0	0	0	0	688,559	697,683	55,841,674	
			0.55	0.50	0.45	0.35	0.25	0.80			
			0<R<=1.25	1.25<R<=1.75	1.75<R<=2.00	2.00<R<=2.50	2.50<R<=2.75	2.75<R			

Chapman Petroleum Engineering Ltd.

Table 4d
Page 4

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable Developed

Production Streams and Revenues

	Contractor' Share						Cost Schedule			Contractor's
Year	Operating Cost Oil	Capital Cost Oil	Net Profit Oil	Total Net Oil	Oil Price	Contractor's Total Revenue (Operating Cash Flow)	Total Operating Costs	Net Operating Income	Total Capital Costs	Net Cash Flow
	STB/yr.	STB/yr.	STB/yr.	STB/yr.	$/STB	$/yr.	$/yr.	$/yr.	$/yr.	$/yr.
2016	28,476	0	$0	$28,476	50.50	1,438,053	1,438,053	0	0	$0
2017	89,953	4,595	$9,124	$103,671	55.50	5,753,767	4,992,368	761,399	255,000	$506,399
2018	88,391	4,368	$40,358	$133,116	65.50	8,719,122	5,789,590	2,929,531	286,110	$2,643,421
2019	99,239	16,106	$67,716	$183,061	70.50	12,905,800	6,996,356	5,909,444	1,135,493	$4,773,951
2020	101,807	3,670	$102,827	$208,305	75.50	15,727,003	7,686,434	8,040,569	277,103	$7,763,466
2021	94,846	0	$99,260	$194,106	78.50	15,237,332	7,445,416	7,791,916	0	$7,791,916
2022	86,640	0	$85,869	$172,509	81.50	14,059,480	7,061,122	6,998,358	0	$6,998,358
2023	81,201	0	$72,667	$153,867	82.50	12,694,041	6,699,051	5,994,990	0	$5,994,990
2024	78,046	0	$59,737	$137,782	84.14	11,593,019	6,566,761	5,026,258	0	$5,026,258
2025	72,762	0	$50,348	$123,110	85.81	10,564,062	6,243,683	4,320,379	0	$4,320,379
2026	62,798	0	$34,129	$96,927	87.52	8,483,008	5,496,068	2,986,939	0	$2,986,939
2027	50,165	0	$21,698	$71,863	89.26	6,414,503	4,477,723	1,936,780	0	$1,936,780
2028	42,169	0	$13,507	$55,676	91.03	5,068,217	3,838,642	1,229,575	0	$1,229,575
2029	35,852	0	$13,662	$49,514	92.85	4,597,351	3,328,828	1,268,522	0	$1,268,522
2030	32,143	0	$12,579	$44,722	94.69	4,234,726	3,043,599	1,191,126	0	$1,191,126
2031	27,496	0	$4,011	$31,507	96.58	3,042,913	2,655,525	387,388	0	$387,388
2032	25,154	0	$3,958	$29,111	98.51	2,867,745	2,477,886	389,859	0	$389,859
2033	23,840	0	$3,225	$27,065	100.48	2,719,456	2,395,406	324,050	0	$324,050
2034	22,047	0	$3,008	$25,055	102.49	2,567,881	2,259,585	308,296	0	$308,296
2035	0	0	$0	$0	104.54	0	0	0	0	$0
2036	0	0	$0	$0	106.63	0	0	0	0	$0
2037	0	0	$0	$0	108.76	0	0	0	0	$0
2038	0	0	$0	$0	110.94	0	0	0	0	$0
2039	0	0	$0	$0	113.16	0	0	0	0	$0
2040	0	0	$0	$0	115.42	0	0	0	0	$0
2041	0	0	$0	$0	117.73	0	0	0	0	$0
Total	**1,143,021**	**28,739**	**697,683**	**1,869,444**		**148,687,476**	**90,892,097**	**57,795,379**	**1,953,705**	**55,841,674**

Company Net Share of Reserves **80%** **1,495,555**

Table 4d
Page 5

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable Developed

Company Cash Flow Analysis

		Net to Company Before and After Income Tax				
		Undiscounted	Discounted @			
	Company Net Oil	Net Cash Flow (Profit)	5%	10%	15%	20%
Year	STB/yr.	$/yr.	$	$	$	$
2016	22,781	$0	$0	$0	$0	$0
2017	82,937	$405,119	$388,984	$374,199	$360,596	$348,036
2018	106,493	$2,114,737	$1,933,821	$1,775,757	$1,636,806	$1,513,970
2019	146,449	$3,819,161	$3,326,126	$2,915,429	$2,570,461	$2,278,492
2020	166,644	$6,210,773	$5,151,421	$4,310,101	$3,634,886	$3,087,763
2021	155,285	$6,233,533	$4,924,094	$3,932,633	$3,172,354	$2,582,565
2022	138,007	$5,598,686	$4,212,006	$3,211,017	$2,477,625	$1,932,956
2023	123,094	$4,795,992	$3,436,307	$2,500,589	$1,845,568	$1,379,854
2024	110,226	$4,021,007	$2,743,842	$1,905,925	$1,345,515	$964,069
2025	98,488	$3,456,303	$2,246,191	$1,489,328	$1,005,698	$690,564
2026	77,541	$2,389,551	$1,478,979	$936,057	$604,609	$397,857
2027	57,491	$1,549,424	$913,328	$551,777	$340,903	$214,981
2028	44,541	$983,660	$552,220	$318,453	$188,195	$113,735
2029	39,611	$1,014,818	$542,583	$298,673	$168,831	$97,781
2030	35,778	$952,901	$485,217	$254,955	$137,852	$76,513
2031	25,205	$309,910	$150,292	$75,380	$38,986	$20,737
2032	23,289	$311,887	$144,048	$68,965	$34,117	$17,391
2033	21,652	$259,240	$114,031	$52,112	$24,659	$12,046
2034	20,044	$246,637	$103,321	$45,071	$20,400	$9,550
2035	0	$0	$0	$0	$0	$0
2036	0	$0	$0	$0	$0	$0
2037	0	$0	$0	$0	$0	$0
2038	0	$0	$0	$0	$0	$0
2039	0	$0	$0	$0	$0	$0
2040	0	$0	$0	$0	$0	$0
2041	0	$0	$0	$0	$0	$0
Total	**1,495,555**	**44,673,339**	**32,846,811**	**25,016,420**	**19,608,062**	**15,738,859**
	80.00%	80.00%				

Table 4e

Page 1

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable

Production and Capital Forecast

		Total Oil Production						Workover Capital Expenditures					
Year	Days	P+P Developed Producing	Probable Developed Non-P	Proved + Probable Undeveloped Locations	Total Proved Plus Probable	Total Proved Plus Probable well count		Exploration	Workover For High Potential	Workover For Fair Potential	Workover For Maykop	Well Fac. & Tie-ins	Central Facilities
		STB/yr.	STB/yr.	STB/yr.	STB/yr.		STB/d	$M	$M	$M	$M	$M	$M
2016	122	33,672	0	0	33,672	64	276	0	0	0	0	0	0
2017	365	95,748	27,300	0	123,048	74	337	0	250	0	0	0	0
2018	365	88,625	79,853	0	168,477	80	462	0	275	0	0	0	0
2019	365	82,034	153,249	157,500	392,782	95	1076	0	0	320	750	500	1,000
2020	365	75,934	199,373	643,267	918,574	108	2517	0	0	258	0	0	0
2021	365	70,290	187,264	1,273,743	1,531,297	113	4195	0	0	0	0	0	0
2022	365	65,067	163,140	1,828,688	2,056,895	118	5635	0	0	0	0	0	0
2023	365	60,234	142,159	2,301,682	2,504,075	123	6860	0	0	0	0	0	0
2024	365	55,760	123,906	2,713,864	2,893,531	133	7927	0	0	0	0	0	0
2025	365	51,620	108,023	3,073,190	3,232,834	138	8857	0	0	0	0	0	0
2026	365	47,789	76,280	3,389,438	3,513,507	138	9626	0	0	0	0	0	0
2027	365	44,243	46,684	3,668,882	3,759,809	132	10301	0	0	0	0	0	0
2028	365	40,961	28,513	3,912,472	3,981,947	132	10909	0	0	0	0	0	0
2029	365	37,923	15,006	4,124,882	4,177,812	134	11446	0	0	0	0	0	0
2030	365	35,112	12,755	4,307,691	4,355,558	138	11933	0	0	0	0	0	0
2031	365	32,509	0	4,576,735	4,609,245	143	12628	0	0	0	0	0	0
2032	365	30,101	0	4,860,292	4,890,392	148	13398	0	0	0	0	0	0
2033	365	27,871	0	4,969,905	4,997,776	154	13693	0	0	0	0	0	0
2034	365	25,807	0	4,452,946	4,478,753	150	12271	0	0	0	0	0	0
2035	365	0	0	3,751,171	3,751,171	141	10277	0	0	0	0	0	0
2036	365	0	0	3,260,758	3,260,758	141	8934	0	0	0	0	0	0
2037	365	0	0	2,826,141	2,826,141	138	7743	0	0	0	0	0	0
2038	365	0	0	2,443,912	2,443,912	134	6696	0	0	0	0	0	0
2039	365	0	0	2,111,534	2,111,534	130	5785	0	0	0	0	0	0
2040	365	0	0	1,812,245	1,812,245	124	4965	0	0	0	0	0	0
2041	365	0	0	1,534,096	1,534,096	115	4203	1	0	0	0	0	0
Total		**1,001,301**	**1,363,505**	**67,995,034**	**70,359,840**			**0**	**525**	**576**	**750**	**500**	**1,000**

	Drilling Capital Expenditures - $M						
Year	Seismic	Drilling & Completion	Total Capital	Cumulative Capital	Escalated Factor	Escalated Capital	Escalated Capital
	$M	$M	$M	$	$	$	$M
2016	0	0	0	0	1.00	0	0
2017	0	0	250	250000	1.02	255,000	255
2018	0	0	275	525000	1.04	286,110	286
2019	0	25,000	27,570	28095000	1.06	29,257,505	29,258
2020	4,000	50,000	54,256	82351000	1.08	58,728,439	58,728
2021	4,000	50,000	54,000	136351000	1.10	59,620,363	59,620
2022	4,000	50,000	54,000	190351000	1.13	60,812,771	60,813
2023	4,000	50,000	54,000	244351000	1.15	62,029,026	62,029
2024	4,000	50,000	54,000	298351000	1.17	63,269,607	63,270
2025	0	50,000	50,000	348351000	1.20	59,754,626	59,755
2026	0	50,000	50,000	398351000	1.22	60,949,721	60,950
2027	0	50,000	50,000	448351000	1.24	62,168,715	62,169
2028	0	50,000	50,000	498351000	1.27	63,412,090	63,412
2029	0	50,000	50,000	548351000	1.29	64,680,332	64,680
2030	0	50,000	50,000	598351000	1.32	65,973,936	65,974
2031	0	50,000	50,000	648351000	1.35	67,293,417	67,293
2032	0	50,000	50,000	698351000	1.37	68,639,285	68,639
2033	0	50,000	50,000	748351000	1.40	70,012,071	70,012
2034	0	0	0	748351000	1.43	0	0
2035	0	0	0	748351000	1.46	0	0
2036	0	0	0	748351000	1.49	0	0
2037	0	0	0	748351000	1.52	0	0
2038	0	0	0	748351000	1.55	0	0
2039	0	0	0	748351000	1.58	0	0
2040	0	0	0	748351000	1.61	0	0
2041	0	0	0	748351000	1.64	0	0
Total	**20,000**	**725,000**	**748,351**			**917,143,018**	**917,143**

Chapman Petroleum Engineering Ltd.

Table 4e

Page 1a

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Proved Plus Probable Undeveloped

Production and Capital Forecast

Single Well Production Profile

	Jafarli	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 2: (North)	Muradkanli Pool 3: (South)	Muradkanli Mid Eocene	Murad Mid Eocene HZL		Jafarli	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 2: (North)	Muradkanli Pool 3: (South)	Muradkanli Mid Eocene	Murad Mid Eocene HZL		Jafarli	Jafarli
Year	STB/d	STB/d	STB/d	STB/d	STB/d	STB/d	Days On	STB/yr	STB/yr	STB/yr	STB/yr	STB/yr	STB/yr	Well Count	1	1
2016	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0	0	0
2017	175	175	175	175	175	500	180	31500	31500	31500	31500	31500	90,000	0.0	0	0
2018	118	118	122	110	110	338	365	43116	43116	44553	40241	40241	123,188	0.0	0	0
2019	83	83	92	66	66	253	365	30181	30181	33415	24145	24145	92,391	5.0	31,500	0
2020	73	74	84	60	57	218	365	26713	27108	30590	21762	20706	79,674	15.0	43,116	31,500
2021	65	67	77	54	49	188	365	23643	24348	28003	19615	17758	68,708	25.0	30,181	43,116
2022	57	60	70	48	42	162	365	20926	21869	25636	17679	15229	59,251	35.0	26,713	30,181
2023	51	54	64	44	36	140	365	18521	19642	23468	15934	13060	51,096	45.0	23,643	26,713
2024	45	48	59	39	31	121	365	16393	17642	21484	14362	11200	44,063	55.0	20,926	23,643
2025	40	43	54	35	26	104	365	14509	15846	19668	12945	9605	37,998	65.0	18,521	20,926
2026	35	39	49	32	23	90	365	12842	14232	18005	11667	8237	32,768	75.0	16,393	18,521
2027	31	35	45	29	19	77	365	11366	12783	16483	10516	7064	28,258	85.0	14,509	16,393
2028	28	31	41	26	17	67	365	10060	11482	15089	9478	6058	24,369	95.0	12,842	14,509
2029	24	28	38	23	14	58	365	8904	10313	13814	8543	5196	21,015	105.0	11,366	12,842
2030	22	25	35	21	0	50	365	7880	9263	12646	7700	0	18,122	115.0	10,060	11,366
2031	19	23	32	19	0	43	365	6975	8319	11577	6940	0	15,628	125.0	8,904	10,060
2032	17	20	29	17	0	37	365	6173	7472	10598	6255	0	13,477	134.0	7,880	8,904
2033	15	18	27	15	0	32	365	5464	6712	9702	5638	0	11,622	142.0	6,975	7,880
2034	13	17	24	14	0	27	365	4836	6028	8882	5081	0	10,022	141.0	6,173	6,975
2035	0	15	22	0	0	24	365	0	5414	8131	0	0	8,643	141.0	5,464	6,173
2036	0	13	20	0	0	20	365	0	4863	7443	0	0	7,453	141.0	4,836	5,464
2037	0	12	19	0	0	18	365	0	4368	6814	0	0	6,427	138.0	0	4,836
2038	0	0	0	0	0	0	365	0	0	0	0	0	0	134.0	0	0
2039	0	0	0	0	0	0	365	0	0	0	0	0	0	130.0	0	0
2040	0	0	0	0	0	0	365	0	0	0	0	0	0	124.0	0	0
2041	0	0	0	0	0	0	365	0	0	0	0	0	0	115.0	0	0
Total	13.03%	9.60%	9.43%	12.19%	21.82%	11.90%		300,000	332,500	397,500	270,000	210,000	844,173		300,000	300,000

Table 4e

Page 1b

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Proved Plus Probable Undeveloped

Production and Capital Forecast

Development Program															
Jafarli	Jafarli	Jafarli	Jafarli	Jafarli	Jafarli	Jafarli	Jafarli	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)
1	1	1	1	2	2	1	1	1	1	1	1	1	1	1	1
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	31,500	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	43,116	31,500	0	0	0	0	0	0
31,500	0	0	0	0	0	0	0	30,181	43,116	31,500	0	0	0	0	0
43,116	31,500	0	0	0	0	0	0	27,108	30,181	43,116	31,500	0	0	0	0
30,181	43,116	31,500	0	0	0	0	0	24,348	27,108	30,181	43,116	31,500	0	0	0
26,713	30,181	43,116	31,500	0	0	0	0	21,869	24,348	27,108	30,181	43,116	31,500	0	0
23,643	26,713	30,181	43,116	63,000	0	0	0	19,642	21,869	24,348	27,108	30,181	43,116	31,500	0
20,926	23,643	26,713	30,181	86,231	63,000	0	0	17,642	19,642	21,869	24,348	27,108	30,181	43,116	31,500
18,521	20,926	23,643	26,713	60,362	86,231	31,500	0	15,846	17,642	19,642	21,869	24,348	27,108	30,181	43,116
16,393	18,521	20,926	23,643	53,425	60,362	43,116	31,500	14,232	15,846	17,642	19,642	21,869	24,348	27,108	30,181
14,509	16,393	18,521	20,926	47,286	53,425	30,181	43,116	12,783	14,232	15,846	17,642	19,642	21,869	24,348	27,108
12,842	14,509	16,393	18,521	41,852	47,286	26,713	30,181	11,482	12,783	14,232	15,846	17,642	19,642	21,869	24,348
11,366	12,842	14,509	16,393	37,042	41,852	23,643	26,713	10,313	11,482	12,783	14,232	15,846	17,642	19,642	21,869
10,060	11,366	12,842	14,509	32,785	37,042	20,926	23,643	9,263	10,313	11,482	12,783	14,232	15,846	17,642	19,642
8,904	10,060	11,366	12,842	29,018	32,785	18,521	20,926	8,319	9,263	10,313	11,482	12,783	14,232	15,846	17,642
7,880	8,904	10,060	11,366	25,683	29,018	16,393	18,521	7,472	8,319	9,263	10,313	11,482	12,783	14,232	15,846
6,975	7,880	8,904	10,060	22,732	25,683	14,509	16,393	6,712	7,472	8,319	9,263	10,313	11,482	12,783	14,232
6,173	6,975	7,880	8,904	20,119	22,732	12,842	14,509	6,028	6,712	7,472	8,319	9,263	10,313	11,482	12,783
5,464	6,173	6,975	7,880	17,807	20,119	11,366	12,842	5,414	6,028	6,712	7,472	8,319	9,263	10,313	11,482
4,836	5,464	6,173	6,975	15,761	17,807	10,060	11,366	4,863	5,414	6,028	6,712	7,472	8,319	9,263	10,313
0	4,836	5,464	6,173	13,950	15,761	8,904	10,060	4,368	4,863	5,414	6,028	6,712	7,472	8,319	9,263
0	0	4,836	5,464	12,347	13,950	7,880	8,904	0	4,368	4,863	5,414	6,028	6,712	7,472	8,319
0	0	0	4,836	10,928	12,347	6,975	7,880	0	0	4,368	4,863	5,414	6,028	6,712	7,472
300,000	**300,000**	**300,000**	**300,000**	**590,328**	**579,400**	**283,527**	**276,552**	**332,500**	**332,500**	**332,500**	**328,132**	**323,269**	**317,855**	**311,826**	**305,115**

Chapman Petroleum Engineering Ltd.

Table 4e

Page 1c

Zenith Energy Ltd.

October 1, 2015

Azerbaijan Project Particulars-Proved Plus Probable Undeveloped

Production and Capital Forecast

Development Program

Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 1: (Fringe)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 2: (North)	Muradkanli Pool 3: (South)
2	2	2	2	1	2	1	1	1	1	1	1	1	1	1	1
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	31,500	0	0	0	0	0	0	0	0	0	0	31,500
0	0	0	0	44,553	63,000	0	0	0	0	0	0	0	0	0	40,241
0	0	0	0	33,415	89,106	31,500	0	0	0	0	0	0	0	0	24,145
0	0	0	0	30,590	66,829	44,553	31,500	0	0	0	0	0	0	0	21,762
0	0	0	0	28,003	61,179	33,415	44,553	31,500	0	0	0	0	0	0	19,615
0	0	0	0	25,636	56,007	30,590	33,415	44,553	31,500	0	0	0	0	0	17,679
0	0	0	0	23,468	51,272	28,003	30,590	33,415	44,553	31,500	0	0	0	0	15,934
0	0	0	0	21,484	46,937	25,636	28,003	30,590	33,415	44,553	31,500	0	0	0	14,362
63,000	0	0	0	19,668	42,969	23,468	25,636	28,003	30,590	33,415	44,553	31,500	0	0	12,945
86,231	63,000	0	0	18,005	39,336	21,484	23,468	25,636	28,003	30,590	33,415	44,553	31,500	0	11,667
60,362	86,231	63,000	0	16,483	36,010	19,668	21,484	23,468	25,636	28,003	30,590	33,415	44,553	31,500	10,516
54,216	60,362	86,231	63,000	15,089	32,966	18,005	19,668	21,484	23,468	25,636	28,003	30,590	33,415	44,553	9,478
48,696	54,216	60,362	86,231	13,814	30,179	16,483	18,005	19,668	21,484	23,468	25,636	28,003	30,590	33,415	8,543
43,737	48,696	54,216	60,362	12,646	27,627	15,089	16,483	18,005	19,668	21,484	23,468	25,636	28,003	30,590	7,700
39,284	43,737	48,696	54,216	11,577	25,292	13,814	15,089	16,483	18,005	19,668	21,484	23,468	25,636	28,003	6,940
35,284	39,284	43,737	48,696	10,598	23,153	12,646	13,814	15,089	16,483	18,005	19,668	21,484	23,468	25,636	6,255
31,692	35,284	39,284	43,737	9,702	21,196	11,577	12,646	13,814	15,089	16,483	18,005	19,668	21,484	23,468	5,638
28,465	31,692	35,284	39,284	8,882	19,404	10,598	11,577	12,646	13,814	15,089	16,483	18,005	19,668	21,484	5,081
25,566	28,465	31,692	35,284	8,131	17,763	9,702	10,598	11,577	12,646	13,814	15,089	16,483	18,005	19,668	0
22,963	25,566	28,465	31,692	7,443	16,262	8,882	9,702	10,598	11,577	12,646	13,814	15,089	16,483	18,005	0
20,625	22,963	25,566	28,465	6,814	14,887	8,131	8,882	9,702	10,598	11,577	12,646	13,814	15,089	16,483	0
18,525	20,625	22,963	25,566	0	13,628	7,443	8,131	8,882	9,702	10,598	11,577	12,646	13,814	15,089	0
16,639	18,525	20,625	22,963	0	0	6,814	7,443	8,131	8,882	9,702	10,598	11,577	12,646	13,814	0
595,285	**578,646**	**560,121**	**539,496**	**397,500**	**795,000**	**397,500**	**390,686**	**383,243**	**375,112**	**366,230**	**356,528**	**345,930**	**334,354**	**321,708**	**270,000**

Table 4e
Page 1d

Zenith Energy Ltd.

October 1, 2015

Azerbaijan Project Particulars-Proved Plus Probable Undeveloped

Production and Capital Forecast

Development Program

Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Pool 3: (South)	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene
2	2	2	2	2	1	1	1	1	2	2	2	2	1	2	1
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	31,500	0	0
63,000	0	0	0	0	0	0	0	0	0	0	0	0	40,241	63,000	0
80,483	63,000	0	0	0	0	0	0	0	0	0	0	0	24,145	80,483	31,500
48,290	80,483	63,000	0	0	0	0	0	0	0	0	0	0	20,706	48,290	40,241
43,524	48,290	80,483	63,000	0	0	0	0	0	0	0	0	0	17,758	41,413	24,145
39,229	43,524	48,290	80,483	63,000	0	0	0	0	0	0	0	0	15,229	35,515	20,706
35,358	39,229	43,524	48,290	80,483	31,500	0	0	0	0	0	0	0	13,060	30,458	17,758
31,869	35,358	39,229	43,524	48,290	40,241	31,500	0	0	0	0	0	0	11,200	26,120	15,229
28,724	31,869	35,358	39,229	43,524	24,145	40,241	31,500	0	0	0	0	0	9,605	22,401	13,060
25,889	28,724	31,869	35,358	39,229	21,762	24,145	40,241	31,500	0	0	0	0	8,237	19,211	11,200
23,334	25,889	28,724	31,869	35,358	19,615	21,762	24,145	40,241	63,000	0	0	0	7,064	16,475	9,605
21,032	23,334	25,889	28,724	31,869	17,679	19,615	21,762	24,145	80,483	63,000	0	0	6,058	14,129	8,237
18,956	21,032	23,334	25,889	28,724	15,934	17,679	19,615	21,762	48,290	80,483	63,000	0	5,196	12,117	7,064
17,086	18,956	21,032	23,334	25,889	14,362	15,934	17,679	19,615	43,524	48,290	80,483	63,000	0	10,391	6,058
15,399	17,086	18,956	21,032	23,334	12,945	14,362	15,934	17,679	39,229	43,524	48,290	80,483	0	0	5,196
13,880	15,399	17,086	18,956	21,032	11,667	12,945	14,362	15,934	35,358	39,229	43,524	48,290	0	0	0
12,510	13,880	15,399	17,086	18,956	10,516	11,667	12,945	14,362	31,869	35,358	39,229	43,524	0	0	0
11,276	12,510	13,880	15,399	17,086	9,478	10,516	11,667	12,945	28,724	31,869	35,358	39,229	0	0	0
10,163	11,276	12,510	13,880	15,399	8,543	9,478	10,516	11,667	25,889	28,724	31,869	35,358	0	0	0
0	10,163	11,276	12,510	13,880	7,700	8,543	9,478	10,516	23,334	25,889	28,724	31,869	0	0	0
0	0	10,163	11,276	12,510	6,940	7,700	8,543	9,478	21,032	23,334	25,889	28,724	0	0	0
0	0	0	10,163	11,276	6,255	6,940	7,700	8,543	18,956	21,032	23,334	25,889	0	0	0
0	0	0	0	10,163	5,638	6,255	6,940	7,700	17,086	18,956	21,032	23,334	0	0	0
540,000	**540,000**	**540,000**	**540,000**	**540,000**	**264,919**	**259,281**	**253,026**	**246,086**	**476,772**	**459,687**	**440,730**	**419,699**	**210,000**	**420,000**	**210,000**

Table 4e

Page 1e

Zenith Energy Ltd.

October 1, 2015

Azerbaijan Project Particulars-Proved Plus Probable Undeveloped

Production and Capital Forecast

Development Program

Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Muradkanli Mid Eocene	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL
1	1	1	1	1	1	1	1	2	2	2	6	2	4	4	4
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	180,000	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	246,375	360,000	0	0
31,500	0	0	0	0	0	0	0	0	0	0	0	184,781	492,750	360,000	0
40,241	31,500	0	0	0	0	0	0	0	0	0	0	159,348	369,563	492,750	360,000
24,145	40,241	31,500	0	0	0	0	0	0	0	0	0	137,416	318,696	369,563	492,750
20,706	24,145	40,241	31,500	0	0	0	0	0	0	0	0	118,502	274,832	318,696	369,563
17,758	20,706	24,145	40,241	31,500	0	0	0	0	0	0	0	102,192	237,004	274,832	318,696
15,229	17,758	20,706	24,145	40,241	31,500	0	0	0	0	0	0	88,126	204,383	237,004	274,832
13,060	15,229	17,758	20,706	24,145	40,241	31,500	0	0	0	0	0	75,997	176,252	204,383	237,004
11,200	13,060	15,229	17,758	20,706	24,145	40,241	31,500	0	0	0	0	65,537	151,993	176,252	204,383
9,605	11,200	13,060	15,229	17,758	20,706	24,145	40,241	63,000	0	0	0	56,516	131,073	151,993	176,252
8,237	9,605	11,200	13,060	15,229	17,758	20,706	24,145	80,483	63,000	0	0	48,737	113,032	131,073	151,993
7,064	8,237	9,605	11,200	13,060	15,229	17,758	20,706	48,290	80,483	63,000	0	42,029	97,475	113,032	131,073
6,058	7,064	8,237	9,605	11,200	13,060	15,229	17,758	41,413	48,290	80,483	189,000	36,244	84,059	97,475	113,032
5,196	6,058	7,064	8,237	9,605	11,200	13,060	15,229	35,515	41,413	48,290	241,448	31,256	72,489	84,059	97,475
0	5,196	6,058	7,064	8,237	9,605	11,200	13,060	30,458	35,515	41,413	144,869	26,954	62,512	72,489	84,059
0	0	5,196	6,058	7,064	8,237	9,605	11,200	26,120	30,458	35,515	124,238	23,244	53,908	62,512	72,489
0	0	0	5,196	6,058	7,064	8,237	9,605	22,401	26,120	30,458	106,546	20,045	46,488	53,908	62,512
0	0	0	0	5,196	6,058	7,064	8,237	19,211	22,401	26,120	91,373	17,286	40,089	46,488	53,908
0	0	0	0	0	5,196	6,058	7,064	16,475	19,211	22,401	78,361	14,907	34,571	40,089	46,488
0	0	0	0	0	0	5,196	6,058	14,129	16,475	19,211	67,202	12,855	29,813	34,571	40,089
0	0	0	0	0	0	0	5,196	12,117	14,129	16,475	57,632	0	25,710	29,813	34,571
210,000	**210,000**	**210,000**	**210,000**	**210,000**	**210,000**	**210,000**	**210,000**	**409,609**	**397,492**	**383,364**	**1,100,666**	**1,688,346**	**3,376,692**	**3,350,982**	**3,321,169**

Table 4e

Page 1f

Zenith Energy Ltd.

October 1, 2015

Azerbaijan Project Particulars-Probable Undeveloped

Production and Capital Forecast

Development Program													Capital Expenditures - $M		
Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Murad Mid Eocene HZL	Total Production	Cumulative Production	Daily Rate			
4	4	4	4	4	4	4	6	6	4	STB/yr.	STB	STB/d	Seismic	Drilling & Completion	Total Capital
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	4,000	25,000	29,000
0	0	0	0	0	0	0	0	0	0	157,500	157,500	432	4,000	50,000	54,000
0	0	0	0	0	0	0	0	0	0	643,267	800,767	1762	4,000	50,000	54,000
0	0	0	0	0	0	0	0	0	0	1,273,743	2,074,509	3490	4,000	50,000	54,000
0	0	0	0	0	0	0	0	0	0	1,828,688	3,903,197	5010	4,000	50,000	54,000
0	0	0	0	0	0	0	0	0	0	2,301,682	6,204,879	6306	0	50,000	50,000
360,000	0	0	0	0	0	0	0	0	0	2,713,864	8,918,743	7435	0	50,000	50,000
492,750	360,000	0	0	0	0	0	0	0	0	3,073,190	11,991,933	8420	0	50,000	50,000
369,563	492,750	360,000	0	0	0	0	0	0	0	3,389,438	15,381,371	9286	0	50,000	50,000
318,696	369,563	492,750	360,000	0	0	0	0	0	0	3,668,882	19,050,254	10052	0	50,000	50,000
274,832	318,696	369,563	492,750	360,000	0	0	0	0	0	3,912,472	22,962,726	10719	0	50,000	50,000
237,004	274,832	318,696	369,563	492,750	360,000	0	0	0	0	4,124,882	27,087,608	11301	0	50,000	50,000
204,383	237,004	274,832	318,696	369,563	492,750	360,000	0	0	0	4,307,691	31,395,299	11802	0	50,000	50,000
176,252	204,383	237,004	274,832	318,696	369,563	492,750	540,000	0	0	4,576,735	35,972,034	12539	0	50,000	50,000
151,993	176,252	204,383	237,004	274,832	318,696	369,563	739,125	540,000	0	4,860,292	40,832,326	13316	0	50,000	50,000
131,073	151,993	176,252	204,383	237,004	274,832	318,696	554,344	739,125	360,000	4,969,905	45,802,231	13616	0	0	0
113,032	131,073	151,993	176,252	204,383	237,004	274,832	478,045	554,344	492,750	4,452,946	50,255,177	12200	0	0	0
97,475	113,032	131,073	151,993	176,252	204,383	237,004	412,247	478,045	369,563	3,751,171	54,006,348	10277	0	0	0
84,059	97,475	113,032	131,073	151,993	176,252	204,383	355,506	412,247	318,696	3,260,758	57,267,106	8934	0	0	0
72,489	84,059	97,475	113,032	131,073	151,993	176,252	306,575	355,506	274,832	2,826,141	60,093,247	7743	0	0	0
62,512	72,489	84,059	97,475	113,032	131,073	151,993	264,378	306,575	237,004	2,443,912	62,537,160	6696	0	0	0
53,908	62,512	72,489	84,059	97,475	113,032	131,073	227,990	264,378	204,383	2,111,534	64,648,693	5785	0	0	0
46,488	53,908	62,512	72,489	84,059	97,475	113,032	196,610	227,990	176,252	1,812,245	66,460,938	4965	0	0	0
40,089	46,488	53,908	62,512	72,489	84,059	97,475	169,549	196,610	151,993	1,534,096	67,995,034	4203	0	0	0
3,286,598	**3,246,508**	**3,200,021**	**3,146,113**	**3,083,601**	**3,011,113**	**2,927,054**	**4,244,369**	**4,074,820**	**2,585,474**	**67,995,034**			**20,000**	**725,000**	**745,000**

10/7/2016

Table 4e- Total Proved Plus Probable 1007

Table 4e
Page 2

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable

Production Splits - Cost Oil

					Operating Costs - $/yr.						Capital Cost Recovery								
Year	Gross Production	Oil Price	Gross Revenue	*Compen-satory Petroleum	Fixed	Variable	Total	Escalated Opex	Available Cost Oil	Operating Cost Oil	Available Capital Cost Oil	Available Capital Cost Oil Revenue Ceiling	Annual Capital Costs For Recovery	Interest on Outstanding Capital	Cumulative Outstanding Capital Costs	Annual Capital Cost Recovery	Cumulative Capital Cost Recovery	Capital Cost Oil
	STB/yr.	$/STB	$/yr.	STB/yr.	$/yr.	$/yr.	$/yr.		STB/yr.	STB/yr.	STB/yr.	$/yr	$/yr.	$/yr.	$/yr.	$/yr.	$/yr.	STB/yr.
2016	33,672	$50.50	1,700,436	1,684	845,333	168,360	1,013,693	1,013,693	31,988	20,073	5,958	300,860	0	0	0	0	0	0
2017	123,048	$55.50	6,829,155	15,423	2,776,000	615,239	3,391,239	3,459,064	107,625	62,325	22,650	1,257,054	255,000	0	255,000	255,000	255,000	4,595
2018	168,477	$65.50	11,035,267	25,272	2,920,000	842,387	3,762,387	3,914,387	143,206	59,762	41,722	2,732,795	286,110	0	286,110	286,110	541,110	4,368
2019	392,782	$70.50	27,691,147	58,917	3,280,000	1,963,911	5,243,911	5,564,880	333,865	78,934	127,465	8,986,297	29,257,505	0	29,257,505	8,986,297	9,527,407	127,465
2020	918,574	$75.50	69,352,354	213,704	3,592,000	4,592,871	8,184,871	8,859,568	704,870	117,345	293,762	22,179,054	58,728,439	912,204	79,911,851	22,179,054	31,706,461	293,762
2021	1,531,297	$78.50	120,206,828	0	3,712,000	7,656,486	11,368,486	12,551,727	1,531,297	159,895	685,701	53,827,550	59,620,363	2,597,976	119,951,136	53,827,550	85,534,012	685,701
2022	2,056,895	$81.50	167,636,953	0	3,832,000	10,284,476	14,116,476	15,897,444	2,056,895	195,061	930,917	75,869,754	60,812,771	2,975,561	129,911,918	75,869,754	161,403,766	930,917
2023	2,504,075	$82.50	206,586,167	0	3,952,000	12,520,374	16,472,374	18,921,580	2,504,075	229,352	1,137,361	93,832,294	62,029,026	2,431,897	118,503,087	93,832,294	255,236,059	1,137,361
2024	2,893,531	$84.14	243,461,660	0	4,192,000	14,467,653	18,659,653	21,862,757	2,893,531	259,838	1,316,846	110,799,451	63,269,607	1,110,186	89,050,586	89,050,586	344,286,645	1,058,362
2025	3,232,834	$85.81	277,409,469	0	4,312,000	16,164,169	20,476,169	24,470,917	3,232,834	285,176	1,473,829	126,469,276	59,754,628	0	59,754,628	59,754,628	404,041,274	696,360
2026	3,513,507	$87.52	307,502,128	0	4,312,000	17,567,535	21,879,535	26,671,031	3,513,507	304,742	1,604,382	140,415,549	60,949,721	0	60,949,721	60,949,721	464,990,995	696,409
2027	3,759,809	$89.26	335,600,546	0	4,168,000	18,799,045	22,967,045	28,556,633	3,759,809	319,926	1,719,941	153,521,956	62,168,715	0	62,168,715	62,168,715	527,159,710	696,490
2028	3,981,947	$91.03	362,476,609	0	4,168,000	19,909,734	24,077,734	30,536,388	3,981,947	335,454	1,823,246	165,970,110	63,412,090	0	63,412,090	63,412,090	590,571,800	696,607
2029	4,177,812	$92.85	387,909,820	0	4,216,000	20,889,059	25,105,059	32,476,070	4,177,812	349,769	1,914,021	177,716,875	64,680,332	0	64,680,332	64,680,332	655,252,131	696,611
2030	4,355,558	$94.69	412,427,745	0	4,312,000	21,777,788	26,089,788	34,424,921	4,355,558	363,554	1,996,002	189,001,412	65,973,938	0	65,973,938	65,973,938	721,226,069	696,736
2031	4,609,245	$96.58	445,160,835	0	4,432,000	23,046,223	27,478,223	36,982,070	4,609,245	382,916	2,113,164	204,089,383	67,293,417	0	67,293,417	67,293,417	788,519,486	696,763
2032	4,890,392	$98.51	481,752,537	0	4,552,000	24,451,961	29,003,961	39,816,223	4,890,392	404,185	2,243,104	220,968,157	68,639,285	0	68,639,285	68,639,285	857,158,772	696,775
2033	4,997,776	$100.48	502,176,572	0	4,696,000	24,988,882	29,684,882	41,566,001	4,997,776	413,674	2,292,051	230,305,285	70,012,071	0	70,012,071	70,012,071	927,170,842	696,776
2034	4,478,753	$102.49	459,027,394	0	4,600,000	22,393,765	26,993,765	38,553,743	4,478,753	376,171	2,051,291	210,236,825	0	0	0	0	927,170,842	0
2035	3,751,171	$104.54	392,147,419	0	4,384,000	18,755,855	23,139,855	33,710,400	3,751,171	322,464	1,714,353	179,218,510	0	0	0	0	927,170,842	0
2036	3,260,758	$106.63	347,694,592	0	4,384,000	16,303,788	20,687,788	30,740,965	3,260,758	288,296	1,486,231	158,476,813	0	0	0	0	927,170,842	0
2037	2,826,141	$108.76	307,371,097	0	4,312,000	14,130,705	18,442,705	27,952,987	2,826,141	257,015	1,284,563	139,709,055	0	0	0	0	927,170,842	0
2038	2,443,912	$110.94	271,127,650	0	4,216,000	12,219,562	16,435,562	25,409,045	2,443,912	229,034	1,107,439	122,859,302	0	0	0	0	927,170,842	0
2039	2,111,534	$113.16	238,941,150	0	4,120,000	10,557,668	14,677,668	23,145,204	2,111,534	204,535	953,499	107,897,973	0	0	0	0	927,170,842	0
2040	1,812,245	$115.42	209,169,314	0	3,976,000	9,061,225	13,037,225	20,969,558	1,812,245	181,680	815,282	94,099,878	0	0	0	0	927,170,842	0
2041	1,534,096	$117.73	180,609,085	0	3,760,000	7,670,478	11,430,478	18,752,911	1,534,096	159,287	687,404	80,926,087	0	0	0	0	927,170,842	0
Total	**70,359,840**		**6,773,003,928**	**315,000**	**102,021,333**	**351,799,198**	**453,820,531**	**606,780,171**	**70,044,840**	**6,360,466**	**31,842,187**	**3,071,669,556**	**917,143,018**	**10,027,825**		**927,170,842**		**10,512,059**
				5%	1,000,000	$5.00				100%	50%			4.50%				
				15%	$/yr	$/STB												

* Note Cumulative compensatory petroleum maximum is 315,000 STB

4 Months in 1st year

Table 4e
Page 3

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable

Production Splits - Profit Oil

	Total Profit Oil		Contractors Share						Total Contractors Profit Oil	Total Contractors Profit Oil Revenue	Cumulative Contractor's Profit Oil Revenue
Year	STB/yr.	"R" Factor	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	STB/yr.	$/yr.	$/yr.
2016	11,915	0.00	6,553	0	0	0	0	0	6,553	330,946	330,946
2017	40,705	0.00	22,388	0	0	0	0	0	22,388	1,242,509	1,573,456
2018	79,076	0.00	43,492	0	0	0	0	0	43,492	2,848,714	4,422,170
2019	127,465	0.16	70,106	0	0	0	0	0	70,106	4,942,463	9,364,633
2020	293,762	0.22	161,569	0	0	0	0	0	161,569	12,198,480	21,563,113
2021	685,701	0.37	377,136	0	0	0	0	0	377,136	29,605,153	51,168,265
2022	930,917	0.67	512,004	0	0	0	0	0	512,004	41,728,365	92,896,630
2023	1,137,361	0.95	625,549	0	0	0	0	0	625,549	51,607,761	144,504,392
2024	1,575,331	1.23	866,432	0	0	0	0	0	866,432	72,901,574	217,405,966
2025	2,251,298	1.47	0	1,125,649	0	0	0	0	1,125,649	96,591,962	313,997,928
2026	2,512,356	1.62	0	1,256,178	0	0	0	0	1,256,178	109,940,688	423,938,616
2027	2,743,392	1.77	0	0	1,234,527	0	0	0	1,234,527	110,193,839	534,132,455
2028	2,949,886	1.88	0	0	1,327,449	0	0	0	1,327,449	120,837,659	654,970,114
2029	3,131,432	1.98	0	0	1,409,144	0	0	0	1,409,144	130,839,038	785,809,152
2030	3,295,268	2.08	0	0	0	1,153,344	0	0	1,153,344	109,210,110	895,019,262
2031	3,529,565	2.13	0	0	0	1,235,348	0	0	1,235,348	119,309,872	1,014,329,134
2032	3,789,433	2.18	0	0	0	1,326,301	0	0	1,326,301	130,653,960	1,144,983,094
2033	3,887,326	2.24	0	0	0	1,360,564	0	0	1,360,564	136,709,475	1,281,692,569
2034	4,102,582	2.47	0	0	0	1,435,904	0	0	1,435,904	147,165,778	1,428,858,346
2035	3,428,707	2.64	0	0	0	0	857,177	0	857,177	89,609,255	1,518,467,601
2036	2,972,462	2.74	0	0	0	0	743,116	0	743,116	79,238,407	1,597,706,008
2037	2,569,126	2.82	0	0	0	0	0	2,055,301	2,055,301	223,534,488	1,821,240,496
2038	2,214,878	3.07	0	0	0	0	0	1,771,903	1,771,903	196,574,884	2,017,815,379
2039	1,906,998	3.29	0	0	0	0	0	1,525,599	1,525,599	172,636,756	2,190,452,136
2040	1,630,565	3.49	0	0	0	0	0	1,304,452	1,304,452	150,559,805	2,341,011,940
2041	1,374,808	3.66	0	0	0	0	0	1,099,847	1,099,847	129,484,939	2,470,496,879
Total	**53,172,315**		**2,685,229**	**2,381,827**	**3,971,119**	**6,511,461**	**1,600,292**	**7,757,100**	**24,907,026**	**2,470,496,879**	
			0.55	0.50	0.45	0.35	0.25	0.80			
			0<R<=1.25	1.25<R<=1.75	1.75<R<=2.00	2.00<R<=2.50	2.50<R<=2.75	2.75<R			

Table 4e
Page 4

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable

Production Streams and Revenues

	Contractor' Share						Cost Schedule			Contractor's
Year	Operating Cost Oil STB/yr.	Capital Cost Oil STB/yr.	Net Profit Oil STB/yr.	Total Net Oil STB/yr.	Oil Price $/STB	Contractor's Total Revenue (Operating Cash Flow) $/yr.	Total Operating Costs $/yr.	Net Operating Income $/yr.	Total Capital Costs $/yr.	Net Cash Flow $/yr.
2016	20,073	0	6,553	26,627	50.50	1,344,640	1,013,693	330,946	0	330,946
2017	62,325	4,595	22,388	89,308	55.50	4,956,573	3,459,064	1,497,509	255,000	1,242,509
2018	59,762	4,368	43,492	107,622	65.50	7,049,211	3,914,387	3,134,824	286,110	2,848,714
2019	78,934	127,465	70,106	276,506	70.50	19,493,641	5,564,880	13,928,761	29,257,505	(15,328,744)
2020	117,345	293,762	161,569	572,677	75.50	43,237,102	8,859,568	34,377,534	58,728,439	(24,350,905)
2021	159,895	685,701	377,136	1,222,732	78.50	95,984,430	12,551,727	83,432,703	59,620,363	23,812,340
2022	195,061	930,917	512,004	1,637,982	81.50	133,495,563	15,897,444	117,598,119	60,812,771	56,785,348
2023	229,352	1,137,361	625,549	1,992,262	82.50	164,361,635	18,921,580	145,440,055	62,029,026	83,411,029
2024	259,838	1,058,362	866,432	2,184,632	84.14	183,814,917	21,862,757	161,952,160	63,269,607	98,682,554
2025	285,176	696,360	1,125,649	2,107,185	85.81	180,817,508	24,470,917	156,346,590	59,754,628	96,591,962
2026	304,742	696,409	1,256,178	2,257,329	87.52	197,561,440	26,671,031	170,890,409	60,949,721	109,940,688
2027	319,926	696,490	1,234,527	2,250,943	89.26	200,919,187	28,556,633	172,362,554	62,168,715	110,193,839
2028	335,454	696,607	1,327,449	2,359,509	91.03	214,786,137	30,536,388	184,249,749	63,412,090	120,837,659
2029	349,769	696,611	1,409,144	2,455,524	92.85	227,995,440	32,476,070	195,519,370	64,680,332	130,839,038
2030	363,554	696,736	1,153,344	2,213,634	94.69	209,608,969	34,424,921	175,184,048	65,973,938	109,210,110
2031	382,916	696,763	1,235,348	2,315,028	96.58	223,585,359	36,982,070	186,603,289	67,293,417	119,309,872
2032	404,185	696,775	1,326,301	2,427,261	98.51	239,109,468	39,816,223	199,293,245	68,639,285	130,653,960
2033	413,674	696,776	1,360,564	2,471,015	100.48	248,287,547	41,566,001	206,721,546	70,012,071	136,709,475
2034	376,171	0	1,435,904	1,812,075	102.49	185,719,521	38,553,743	147,165,778	0	147,165,778
2035	322,464	0	857,177	1,179,641	104.54	123,319,654	33,710,400	89,609,255	0	89,609,255
2036	288,296	0	743,116	1,031,411	106.63	109,979,372	30,740,965	79,238,407	0	79,238,407
2037	257,015	0	2,055,301	2,312,316	108.76	251,487,475	27,952,987	223,534,488	0	223,534,488
2038	229,034	0	1,771,903	2,000,937	110.94	221,983,929	25,409,045	196,574,884	0	196,574,884
2039	204,535	0	1,525,599	1,730,134	113.16	195,781,961	23,145,204	172,636,756	0	172,636,756
2040	181,680	0	1,304,452	1,486,132	115.42	171,529,363	20,969,558	150,559,805	0	150,559,805
2041	159,287	0	1,099,847	1,259,134	117.73	148,237,851	18,752,911	129,484,939	0	129,484,939
Total	**6,360,466**	**10,512,059**	**24,907,028**	**41,779,553**		**4,004,447,893**	**606,780,171**	**3,397,667,722**	**917,143,018**	**2,480,524,704**
Company Net Share of Reserves			**80%**	**33,423,642**						

Table 4e
Page 5

Zenith Energy Ltd.

September 1, 2016

Azerbaijan Project Particulars-Total Proved Plus Probable

Company Cash Flow Analysis

		Net to Company Before and After Income Tax				
		Undiscounted	Discounted @			
	Company Net Oil	Net Cash Flow (Profit)	5%	10%	15%	20%
Year	STB/yr.	$/yr.	$	$	$	$
2016	21,301	264,757	259,957	255,462	251,238	247,261
2017	71,446	994,007	935,197	882,366	834,675	791,431
2018	86,097	2,278,971	2,042,034	1,839,100	1,664,059	1,512,102
2019	221,204	(12,262,995)	(10,464,810)	(8,996,433)	(7,786,254)	(6,780,434)
2020	458,141	(19,480,724)	(15,832,539)	(12,992,304)	(10,755,715)	(8,976,041)
2021	978,185	19,049,872	14,745,117	11,549,959	9,145,941	7,314,599
2022	1,310,386	45,428,279	33,488,305	25,039,289	18,965,521	14,535,952
2023	1,593,810	66,728,823	46,847,999	33,436,168	24,224,461	17,793,010
2024	1,747,705	78,946,043	52,785,987	35,961,741	24,921,443	17,542,242
2025	1,685,748	77,273,569	49,207,348	31,999,901	21,211,723	14,308,841
2026	1,805,863	87,952,551	53,340,628	33,111,085	20,994,018	13,571,900
2027	1,800,755	88,155,071	50,917,572	30,170,297	18,297,704	11,335,959
2028	1,887,607	96,670,127	53,176,944	30,076,819	17,447,923	10,359,100
2029	1,964,420	104,671,230	54,836,423	29,605,626	16,427,858	9,347,077
2030	1,770,907	87,368,088	43,591,852	22,465,033	11,923,633	6,501,597
2031	1,852,022	95,447,698	45,355,458	22,311,456	11,327,245	5,919,055
2032	1,941,809	104,523,168	47,302,757	22,211,681	10,786,304	5,401,537
2033	1,976,812	109,367,580	47,138,222	21,128,311	9,814,109	4,709,905
2034	1,449,660	117,732,622	48,327,253	20,676,656	9,186,736	4,225,120
2035	943,713	71,687,404	28,025,208	11,445,471	4,864,178	2,143,897
2036	825,129	63,390,725	23,601,653	9,200,763	3,740,197	1,579,812
2037	1,849,853	178,827,590	63,410,608	23,596,086	9,174,986	3,713,924
2038	1,600,749	157,259,907	53,107,531	18,863,869	7,016,024	2,721,669
2039	1,384,107	138,109,405	44,419,335	15,060,636	5,357,948	1,991,862
2040	1,188,906	120,447,844	36,894,236	11,940,607	4,063,277	1,447,617
2041	1,007,307	103,587,951	30,218,955	9,335,637	3,038,707	1,037,487
Total	**33,423,642**	**1,984,419,763**	**897,679,229**	**450,175,284**	**246,137,938**	**144,296,482**
	80%	80%				

APPENDIX A

AZERBAIJAN SITE VISIT

BAKU CITY AND MURADKHANLI, JAFARLI AND ZARDAB OIL FIELDS

SEPTEMBER 14 TO 19, 2015

CONDUCTED BY CHARLES G. K. MOORE

SENIOR ASSOCIATE, CHAPMAN PETROLEUM ENGINEERING LTD.

The first two and final three days of the location visit were held in the offices of Zenith Energy Ltd. (the Company) located in the recently completed Azure Business Centre in Baku. Technical information, reserve estimates, production history, etc. were presented by and discussed with Elkan Ahmadov, Consultant to the Company. Also in attendance were Mail Guliyev, Chief SOCAR (State Oil Company of Azerbaijan Republic) Geologist in Muradkhanli Field, Riccardo Lazzeri, geologist employed by the Company and Zaur Hajizada, Senior Geologist with SOCAR.

On September 15, there was a visit to the SOCAR Institute of Geology and Geophysics to meet the personnel conducting seismic interpretations and to view certain well logs which are in storage there and are not readily available elsewhere. Copies were requested, especially of modern porosity logs with LAS files.

The visit to the oil fields was held on September 16, 2015, arriving at the field office at 10:30 am. The visit began with a meeting in the field office conference room. The room was well equipped and comfortable. Mail Guliyev, the chief geologist and Elkhan Ahmadov, consulting reservoir geologist, were present to provide information and answer questions. We obtained a better understanding of the condition of the wells, producing and nonproducing. In many cases simple clean outs, reperforating, acid jobs are expected to restore or greatly increase production. Maps were inspected and various proposed locations were identified.

Mr. Riccardo Lazzeri, geologist, is the Company staff person who accompanied and assisted Charles Moore greatly throughout the visit in Baku and the oil field. Mr. Zaur Hajizada, Senior Geologist, the Company's main contact with SOCAR, arranged for the car to take us to the field, translated for us as required and generally accompanied us in Baku and in the field. Mr. Elkhan Ahmadov, Consulting Reservoir Engineer, had been engaged to prepare & summarize material for our use and for use in later field redevelopment. We also were greeted by Mubariz Guliyev, the field manager in his office.

At 14:30 for about 2 hours a tour was made of the oil fields, guided by Fakhraddin Ahmadov, the field supervisor and a driver in a SOCAR field truck. Several active flowing wells as well as wells being pumped by ESP's were inspected. We also visited the service rig which was just moving in on a well to remove and replace or repair the ESP which was not working. There was a large crew, quite well equipped with hard hats, coveralls and work boots. A little oil was being drained from the well to the ground but safety and the environment were being considered. Flare pits are in use.

Wells are tied in with surface gathering lines ranging in size from 4 to 10 inches. They seemed to be randomly placed but provide alternate routing for production in case of problems with one line. Well effluent is gathered to a central processing and storage facility in the Muradkhanli field. Separators and heater/treaters were in operation. There were 4 large storage tanks with capacities of 5000, 3000, 2500 and 2500 barrels respectively. One of the 2500 barrel tanks is worn out and is being replaced. The tanks are surrounded by berms to confine any spills. There is ample installed capacity to allow field production rates to increase several fold without any major new equipment. The truck loading facilities were also observed. Increased production rates would require more frequent trucking but not new facilities in early years. Oil is trucked to a pipeline terminal at Shirvan, a distance of about 120 km. From there the crude oil is shipped in batches for refining or export.

The very little gas that is produced is used on site for the heater/ treater. The produced water is pumped to disposal well #56 for disposal to a permeable sand at 1400 m. There is also a backup disposal well, #93.

The area is generally very flat and dry. There is some agriculture, using irrigation in the area, which does not interfere with oil field operations. The area is sparsely settled but is near a main paved highway. A railway is also nearby. There are no major communities in the immediate area. Minimal site restoration should be required to restore the land to its original condition. A marsh area had been noted on maps which had precluded most drilling and seismic activities in this considerable area. It was noted that at the time of the visit the ground was dry and appeared to be hard. It appears the seismic and other work may be practical in the marshy area during dry periods. Directional drilling is another approach to access resources under the marsh area.

Two service rigs, one needing repair will be transferred to the Company with the field. The SOCAR field office and all equipment will be available to the Company.

Charles Moore concluded that this is an active oil field. There is the opportunity and need for some upgrading and updating of equipment and procedures but the foundation for expanded operations is in place. SOA, a subsidiary of SOCAR, will be a 20 percent Working Interest participant and is expected to be very helpful in transferring equipment and facilitating the construction or import of new equipment.

Some photos of the field were taken. Eight photos are included as Attachment 2. Additional photos can be viewed on request.

Other Observations and Comments

Well cores were discussed. Rock mechanic studies would be helpful if fracturing and stimulation activities are to be optimized. Zaur Hajizada will check if some cores are in storage in Azerbaijan; he knows some will have been sent to Moscow and likely cannot be obtained. In any case fresh cores should be obtained when new wells are drilled. Most existing cores will be over 30 years old and storage conditions are not likely optimum.

A ten well workover plan was provided by the SOCAR geologist Mail Guliyev. Two wells have been worked on, one had little success and the job will be repeated. The other workover candidates provide a starting point for the work the Company intends to carry out.

Photos from Site Visit

Baku and Muradkhanli Oil Field, Azerbaijan

September 2015

Zenith Personnel at Work in Zenith Head Office in Baku

Chapman Associate at Muradkhanli Field Office

Chapman, Zenith and SOCAR Personnel in Muradkhanli Field

Typical Flowing Muradkhanli Oil Well

Photos from Site Visit

Baku and Muradkhanli Oil Field, Azerbaijan

September 2015


Service Rig Moving to Work Over Well with ESP


Chapman and Zenith Personnel with SOCAR Field Supervisors


Heater Treaters and Other Equipment at Muradkhanli Central Facilities


3000 BBL Oil Storage Tank at Muradkhanli Central Facilities

ZENITH ENERGY LTD.

COMPANY'S CONCESSIONS

ITALY

ORIENTATION MAP

SEP. 2016 **JOB No. 6264**

128

Chapman Petroleum Engineering Ltd.

ITALY
DISCUSSION

General Discussion

The Company has working interests in nine concessions in Italy. The four concessions which have commercial significance at this time have been evaluated in this report.

SUMMARY OF COMPANY RESERVES AND ECONOMICS

ITALY

INDEX

Forecast Prices and Costs

Forecast Prices & Costs

Table 1
Summary of Company Reserves and Economics
Before Income Tax
September 1, 2016

Italy Properties Only

Zenith Energy Ltd.

Description		Light and Medium Oil MSTB Gross	Light and Medium Oil MSTB Net	Sales Gas MMscf Gross	Sales Gas MMscf Net	NGL Mbbls Gross	NGL Mbbls Net	Cumulative Cash Flow (BIT) - MUS$ Undisc.	Discounted at: 5%/year	10%/year	15%/year	20%/year
Proved Developed Producing												
Lucera Concession		0	0	112	112	0	0	109	99	90	82	75
Misano Adriatico Concession		0	0	112	112	0	0	316	269	229	197	172
San Mauro Concession		0	0	100	100	0	0	95	72	56	45	37
Torrente Cigno Concession		0	0	1,259	1,259	9	9	1,842	1,487	1,228	1,036	889
Total Proved Developed Producing		**0**	**0**	**1,584**	**1,584**	**9**	**9**	**2,361**	**1,926**	**1,604**	**1,360**	**1,174**
Probable												
Probable Developed Producing												
Lucera Concession	Incr.	0	0	27	27	0	0	60	45	35	27	22
Misano Adriatico Concession	Incr.	0	0	61	61	0	0	312	188	118	78	54
San Mauro Concession	Incr.	0	0	71	71	0	0	150	80	46	29	19
Torrente Cigno Concession	Incr.	0	0	1,439	1,439	10	10	3,173	1,677	948	565	353
Total Probable Developed Producing		**0**	**0**	**1,598**	**1,598**	**10**	**10**	**3,696**	**1,990**	**1,147**	**699**	**448**
Probable Undeveloped												
Torrente Cigno Concession		0	0	13,413	13,413	91	91	33,642	11,994	5,785	3,284	2,027
Total Probable Undeveloped		**0**	**0**	**13,413**	**13,413**	**91**	**91**	**33,642**	**11,994**	**5,785**	**3,284**	**2,027**
Total Probable		**0**	**0**	**15,010**	**15,010**	**101**	**101**	**37,338**	**13,985**	**6,931**	**3,983**	**2,475**
Total Proved Plus Probable		**0**	**0**	**16,594**	**16,594**	**109**	**109**	**39,699**	**15,912**	**8,535**	**5,343**	**3,649**

Net To Appraised Interest

MUS$ means thousands of United States dollars.

Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

Columns may not add precisely due to accumulative rounding of values throughout the report.

Table 1a

EVALUATION OF: Zenith Energy Ltd. (Italy Properties)
============== Total Proved Developed Producing Cons.

ERGO v7.43 P2 ENERGY SOLUTIONS GRAND TOTAL
GLOBAL : 03-OCT-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016
RUN DATE: 3-OCT-2016 TIME: 15:22
FILE:

EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TOTAL ABANDONMENT 322 -M$-

Year	# of Wells	Sales Gas MMCF Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net	Condensate BBL Price $/BBL	Co. Share Gross
2016	5	2.13	1095.4	134	67	67	46.92	346
2017	5	2.22	1030.9	376	198	198	51.92	1035
2018	5	2.29	947.8	346	192	192	61.92	1035
2019	5	2.40	876.7	320	187	187	66.92	1035
2020	5	2.47	816.0	298	183	183	71.92	1035
2021	5	2.57	764.0	279	179	179	74.92	1035
2022	5	2.73	671.5	245	159	159	77.92	916
2023	5	2.97	551.7	201	126	126	78.92	715
2024	5	3.27	455.3	166	100	100	80.56	558
2025	5	3.58	377.3	138	80	80	82.23	435
2026	3	3.53	225.6	82	60	60	83.94	339
2027	3	5.81	100.3	37	16	16	85.68	47
2028	2	8.40	74.9	27	8	8	.00	0
2029	2	8.58	68.9	25	7	7	.00	0
2030	2	8.75	63.5	23	7	7	.00	0
SUB				2698	1569	1569		8530
REM				57	14	14		0
TOT				2755	1584	1584		8530

= P/T = ==================== COMPANY SHARE FUTURE NET REVENUE ====================

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties Crown -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/BOE	FR After Roy&Oper -M$-	Net back $/BOE	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	144	16	160	0	0	0	.0	33	49	7.10	77	6.68	0	0	0	77	76
2017	0	0	439	54	493	0	0	0	.0	102	142	7.16	250	7.35	0	0	0	250	230
2018	0	0	440	64	504	0	0	0	.0	104	134	7.20	266	8.06	0	0	0	266	223
2019	0	0	449	69	519	0	0	0	.0	106	128	7.25	285	8.85	0	0	0	285	218
2020	0	0	451	74	525	0	0	0	.0	108	122	7.30	295	9.37	0	0	0	295	205
2021	0	0	461	78	538	0	0	0	.0	110	117	7.36	311	10.06	0	0	0	311	196
2022	0	0	434	71	505	0	0	0	.0	112	106	7.98	287	10.49	0	0	0	287	165
2023	0	0	374	56	431	0	0	0	.0	115	89	9.38	227	10.46	0	0	0	227	118
2024	0	0	328	45	373	0	0	0	.0	117	75	11.12	181	10.44	0	0	0	181	86
2025	136	0	287	36	323	0	0	0	.0	119	64	13.28	140	10.11	0	0	19	121	52
2026	0	0	212	28	240	0	0	0	.0	98	44	13.83	97	9.43	0	0	0	97	38
2027	32	0	92	4	96	0	0	0	.0	41	23	23.90	32	11.87	0	0	32	0	0
2028	0	0	68	0	68	0	0	0	.0	31	18	36.32	19	14.10	0	0	0	19	6
2029	0	0	63	0	63	0	0	0	.0	31	17	39.50	15	11.98	0	0	0	15	4
2030	0	0	58	0	58	0	0	0	.0	32	16	43.02	11	9.50	0	0	0	11	3
SUB	168	0	4300	596	4896	0	0	0	.0	1259	1145		2492		0	0	50	2442	1621
REM	153	0	126	0	126	0	0	0	.0	79	38		10		0	0	91	-81	-17
TOT	322	0	4426	596	5023	0	0	0	.0	1338	1182		2502		0	0	141	2361	1604

==================== NET PRESENT VALUE (-M$-) ====================

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	2502	1999	1771	1643	1529	1382	1187
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	141	72	50	39	31	22	13
Future Net Revenue .	2361	1926	1722	1604	1498	1360	1174

==================== COMPANY SHARE ====================

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	51.3	58.3					
% of Future Revenue.			.0	50.2	49.8	.0	47.0

==================== PROFITABILITY ====================

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/BOE)	5.68
NPV @ 5.0% ($/BOE)	7.07

Table 1b

EVALUATION OF: Zenith Energy Ltd. (Italy Properties)
============== Total Roved Plus Probable Cons.

ERGO v7.43 P2 ENERGY SOLUTIONS GRAND TOTAL
GLOBAL : 03-OCT-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016
RUN DATE: 3-OCT-2016 TIME: 15:23
FILE:

EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TOTAL CAPITAL COSTS - 1530 -M$-
TOTAL ABANDONMENT - 364 -M$-

		Sales Gas MMCF					Condensate BBL	
			Pool		Company Share			Co.
Year	# of Wells	Price $/MCF	MCF/D	Vol	Gross	Net	Price $/BBL	Share Gross
2016	5	2.13	1099.4	134	68	68	46.92	346
2017	6	1.83	1828.5	667	484	484	51.92	2963
2018	6	1.90	1912.5	698	534	534	61.92	3334
2019	6	2.02	1854.1	677	530	530	66.92	3334
2020	6	2.11	1802.5	658	527	527	71.92	3334
2021	6	2.24	1757.0	641	524	524	74.92	3334
2022	6	2.36	1716.7	627	521	521	77.92	3334
2023	6	2.48	1681.0	614	519	519	78.92	3334
2024	6	2.64	1649.4	602	516	516	80.56	3334
2025	6	2.80	1621.3	592	514	514	82.23	3334
2026	6	2.86	1578.7	576	506	506	83.94	3291
2027	6	2.91	1523.2	556	492	492	85.68	3208
2028	4	2.93	1377.9	503	475	475	87.45	3133
2029	4	2.99	1344.6	491	464	464	89.27	3064
2030	4	3.05	1313.8	480	454	454	91.11	3000
SUB				8515	7127	7127		45678
REM				9741	9467	9467		63463
TOT				18256	16594	16594		109141

= P/T = ============ COMPANY SHARE FUTURE NET REVENUE ============

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties Crown -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/BOE	FR After Roy&Oper -M$-	Net back $/BOE	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	144	16	160	0	0	0	.0	33	49	7.11	78	6.70	0	0	0	78	77
2017	1530	0	887	154	1041	0	0	0	.0	140	256	4.75	644	7.71	0	1530	0	-886	-818
2018	0	0	1012	206	1219	0	0	0	.0	151	276	4.61	793	8.58	0	0	0	793	665
2019	0	0	1072	223	1295	0	0	0	.0	154	274	4.66	868	9.46	0	0	0	868	662
2020	0	0	1112	240	1352	0	0	0	.0	157	273	4.71	922	10.12	0	0	0	922	640
2021	0	0	1171	250	1421	0	0	0	.0	160	272	4.77	989	10.91	0	0	0	989	624
2022	0	0	1229	260	1489	0	0	0	.0	163	272	4.83	1054	11.69	0	0	0	1054	605
2023	0	0	1288	263	1551	0	0	0	.0	166	273	4.89	1112	12.39	0	0	0	1112	580
2024	0	0	1364	269	1633	0	0	0	.0	170	273	4.96	1190	13.31	0	0	0	1190	564
2025	0	0	1440	274	1714	0	0	0	.0	173	275	5.03	1266	14.22	0	0	0	1266	546
2026	0	0	1445	276	1721	0	0	0	.0	176	273	5.13	1271	14.51	0	0	0	1271	498
2027	142	0	1434	275	1709	0	0	0	.0	180	269	5.27	1260	14.78	0	0	19	1241	442
2028	0	0	1390	274	1664	0	0	0	.0	159	254	5.03	1250	15.20	0	0	0	1250	405
2029	0	0	1387	273	1660	0	0	0	.0	163	253	5.17	1245	15.49	0	0	0	1245	366
2030	0	0	1385	273	1658	0	0	0	.0	166	252	5.31	1241	15.78	0	0	0	1241	332
SUB	1672	0	17761	3527	21288	0	0	0	.0	2310	3795		15183		0	1530	19	13634	6187
REM	222	0	28718	5902	34620	0	0	0	.0	3264	5131		26225		0	0	160	26065	2348
TOT	1894	0	46479	9429	55908	0	0	0	.0	5574	8926		41408		0	1530	179	39699	8535

============ NET PRESENT VALUE (-M$-) ============

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	41408	17432	12149	9966	8386	6712	4967
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	1530	1469	1435	1413	1392	1361	1314
Abandonment Costs ..	179	52	28	19	13	8	4
Future Net Revenue .	39699	15912	10687	8535	6981	5343	3649

============ COMPANY SHARE ============

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	51.1	91.2					
% of Future Revenue.			.0	25.9	74.1	2.7	71.0

============ PROFITABILITY ============

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	112.6
Profit Index (undisc.)	23.2
(disc. @ 10.0%) .	6.0
(disc. @ 5.0%) .	10.5
First Payout (years)	.3
Total Payout (years)	2.6
Cost of Finding ($/BOE)	.59
NPV @ 10.0% ($/BOE)	2.97
NPV @ 5.0% ($/BOE)	5.53

LUCERA GAS CONCESSION

ONSHORE, ITALY

INDEX

LUCERA GAS CONCESSION
ONSHORE ITALY
DISCUSSION

Property Description

The Company owns 13.6% working interest in the Lucera gas concession covering approximately 38,514 acres, and located onshore Italy along the Adriatic coast.

A map showing the Lucera concession location is presented in Figure 1a, and a description of the ownership is presented in Table 1.

Geology

The regional geology of Italy as shown in Fig 2a places the company's properties in the on-land shallow depths of the Apenninic Foredeep basin.

The Apennines are the consequences of the subduction of three types of lithosphere with different characteristics, but pertaining to the same Adriatic plate.[1]

1. In the north central Apennines, thin continental lithosphere at the surface in the foreland, and probably thinner at depth, occurs
2. In the southern Apennines, thick continental lithosphere occurs in the foreland, whereas probably old oceanic lithosphere constitutes the slab at depth to the west (northern prologation of the Ionian Mesozoic basin
3. In the southern sector, offshore Calabria, old oceanic Ionian lithosphere occurs both in the foreland and at depth.

The Lucera exploration play has gas resources in the Cenozoic Upper Tertiary Pliocene sand levels of the Bradano Trough as represented in the Stratigraphic Column of Fig 2b.

[1] 'An Introduction To The Italian Geology' – Carlo Doglioni and Giovanni Flores, 1997

Reserves

Total gross proved developed producing conventional non-associated marketable gas reserves of 826 MMscf have been estimated for the two producing gas wells. These estimates are based on production decline analyses as presented in Figures 3a and 3b.

Gross probable additional developed producing conventional non-associated marketable gas reserves of 197 MMscf have been estimated for the same two wells based on production decline analyses assuming a lesser decline rate, as presented in Figures 4a and 4b.

Production

The Lucera gas concession is producing at a total rate of 531 Mscf/d.

Product Prices

An average 2016 gas price of $3.91/Mscf has been used for this area based on information provided by the Company, which reflects a correlation to the World Bank European posted gas price of 87%.

Capital Expenditures

There are no forecasted capital expenditures as presented in Table 3a.

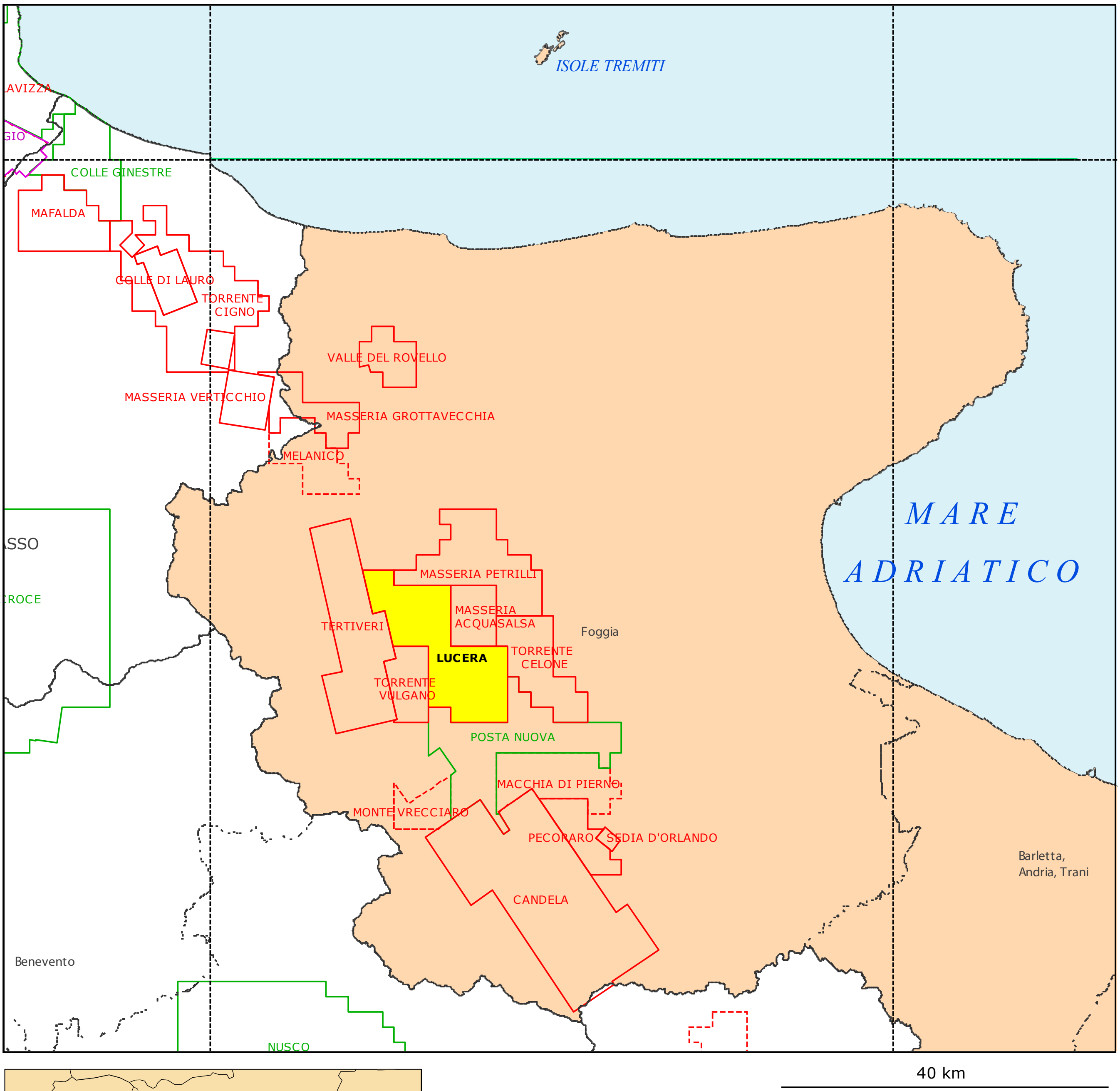
Total abandonment and reclamation liabilities of $114,000 ($15,500 net to the Company) have been estimated based on a reasonable expectation for these types of wells. The abandonment and site reclamation costs are presented in Table 3b.

Operating Costs

Operating costs for this area have been estimated to be $6,000 per well per month plus $1.86/Mscf, based on information provided by the Company.

Economics

An economic summary is presented on Table 4 and the results of our economic analysis are presented on Tables 4a and 4b.



ZENITH ENERGY LTD.

LUCERA CONCESSION

PUGLIA REGION, ITALY

LAND MAP

SEP. 2016 JOB No. 6264 FIGURE No. 1

137

Chapman Petroleum Engineering Ltd.

Table 1

Schedule of Lands, Interests and Royalty Burdens
September 1, 2016

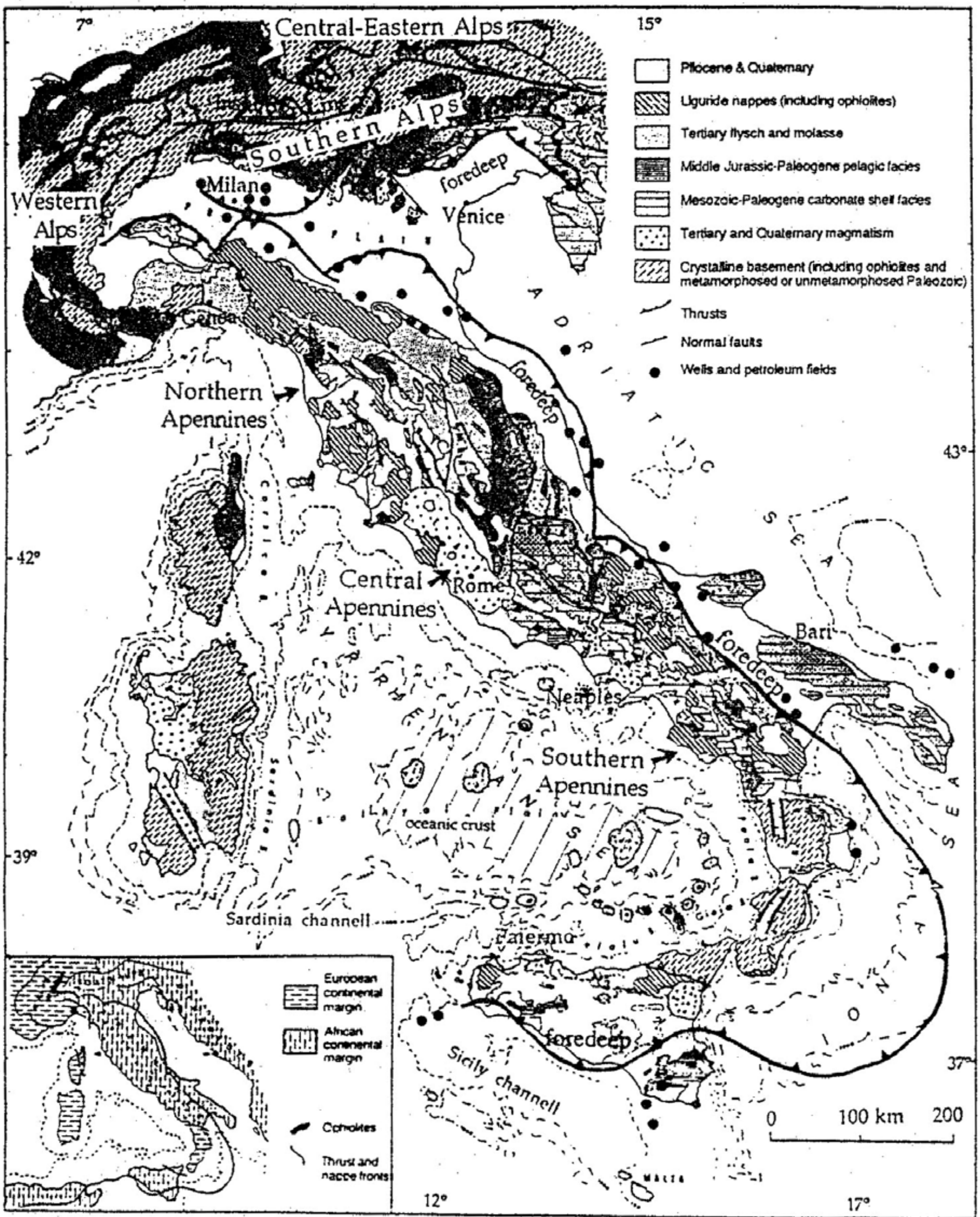
Zenith Energy Ltd.

Lucera Concession, Onshore Italy

			Appraised Interest		Royalty Burdens	
Description	**Rights Owned**	**Gross Acres**	**Working %**	**Royalty %**	**Basic %**	**Overriding %**
Lucera Concession	[A]	38,514	13.6000	-	7.0000 [1]	

General Notes : [1] Only if over 25 million cubic meters annually (882.8 MMCF). 0% at forecast rates.

Rights Owned : [A] All P&NG.
The Concession will expire in 2017. The operator will apply for a 10 year extension which is expected to be granted in view of the remaining reserves.



Source: Doglioni and Flores, An Introduction to the Italian Geology, 1997

ZENITH ENERGY LTD.
ITALY **REGIONAL GEOLOGY**
SEP. 2016 JOB No. 6264 FIGURE No. 2a

Chapman Petroleum Engineering Ltd.

System	Series	Stage	Age (Ma)	ZONES OF INTEREST
Quaternary	Pleistocene	Gelasian	younger	
Neogene	Pliocene	Piacenzian	2.588–3.600	GAS ZONE
		Zanclean	3.600–5.332	GAS ZONE
	Miocene	Messinian	5.332–7.246	GAS ZONE
		Tortonian	7.246–11.608	
		Serravallian	11.608–13.65	
		Langhian	13.65–15.97	
		Burdigalian	15.97–20.43	
		Aquitanian	20.43–23.03	
Paleogene	Oligocene	Chattian	older	

ZENITH ENERGY LTD.		
ITALY STRATIGRAPHIC CHART		
SEP. 2016	JOB No. 6264	FIGURE No. 2b

Chapman Petroleum Engineering Ltd.

Table 2

Summary of Gross Reserves
September 1, 2016

Zenith Energy Ltd.

Lucera Concession, Onshore Italy

Description			Current or Initial Rate Mscf/d	Ultimate RGIP (MMscf)	Cumulative Production (MMscf)	Remaining RGIP (raw) (MMscf)	Remaining RGIP (sales) (MMscf)	Remaining NGLs (MBbls)	Reference
Proved Developed Producing									
Lucera Concession	2 Lucera wells		531	5,976	5,107	869	826	0	Fig 3a & b
	Total Proved Producing		**531**	**5,976**	**5,107**	**869**	**826**	**0**	
Probable Developed Producing									
Lucera Concession	2 Lucera wells	(Incr.)	0	208	0	208	198	0	Fig 4a & b
	Total Probable		0	208	0	208	198	0	
	Total Proved Plus Probable		**531**	**6,184**	**5,107**	**1,077**	**1,023**	**0**	

PRODUCTION HISTORY

Proved Developed Producing

"Lucera Field, Italy"

Field: Lucera
Formation: Lucera

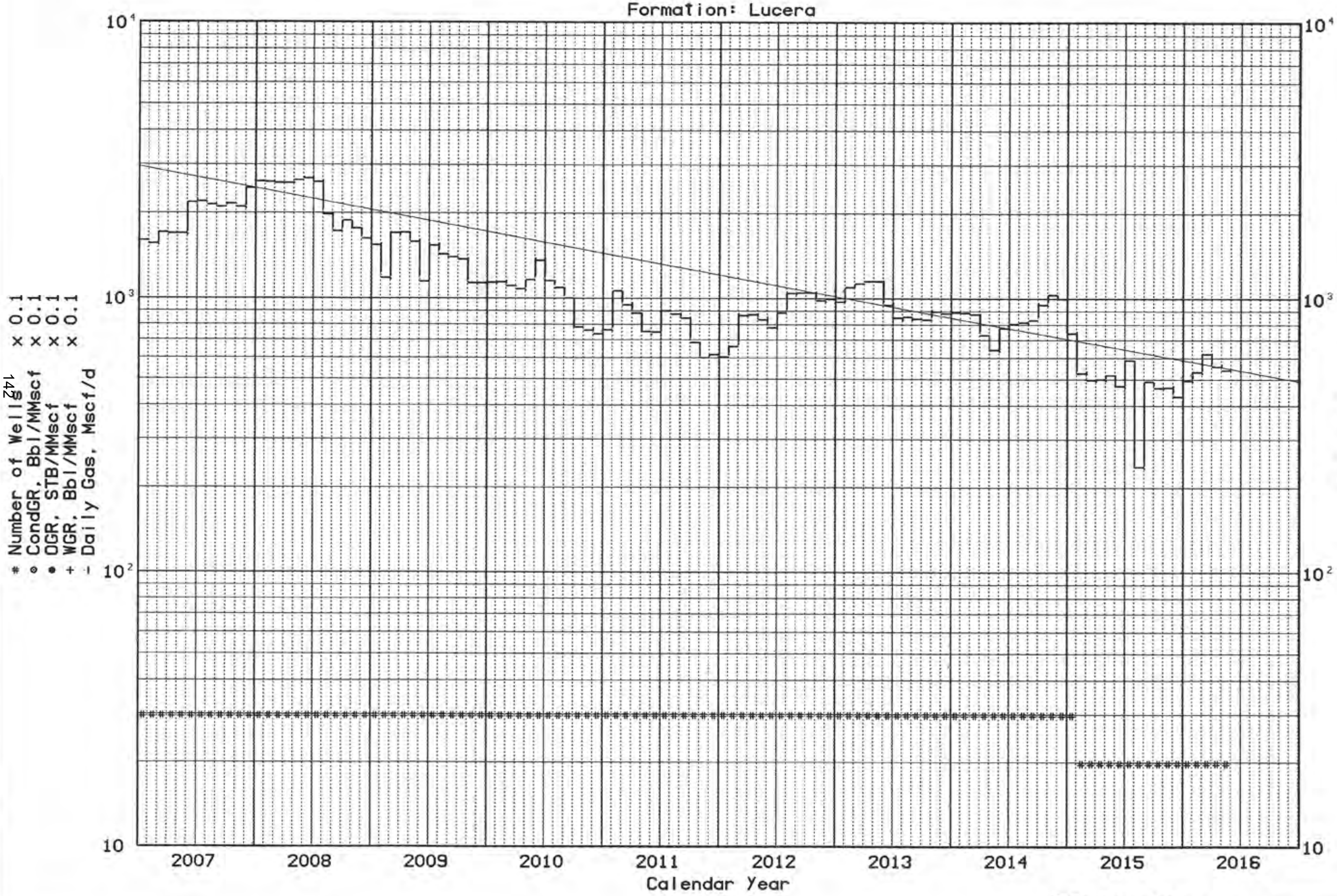
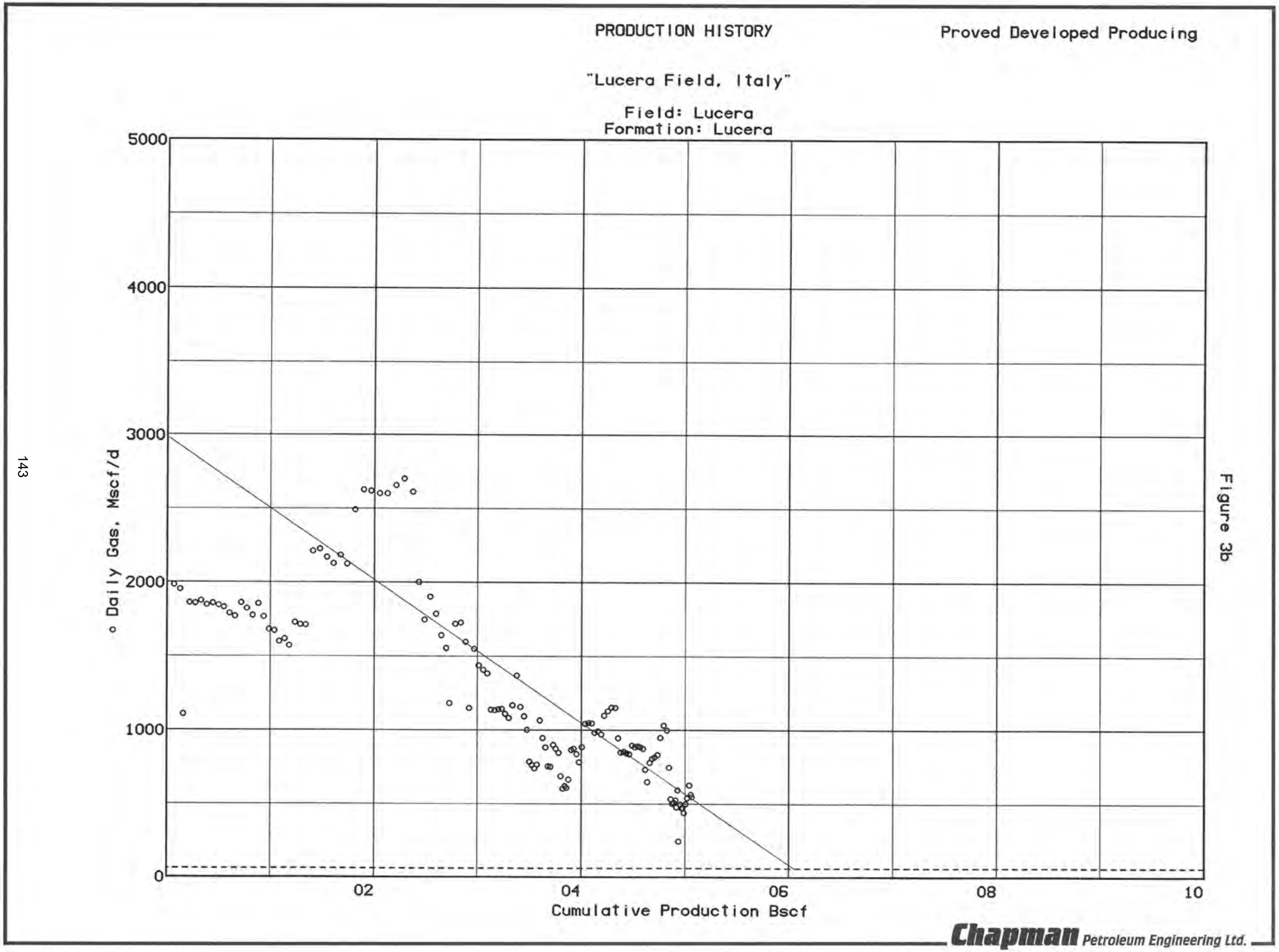
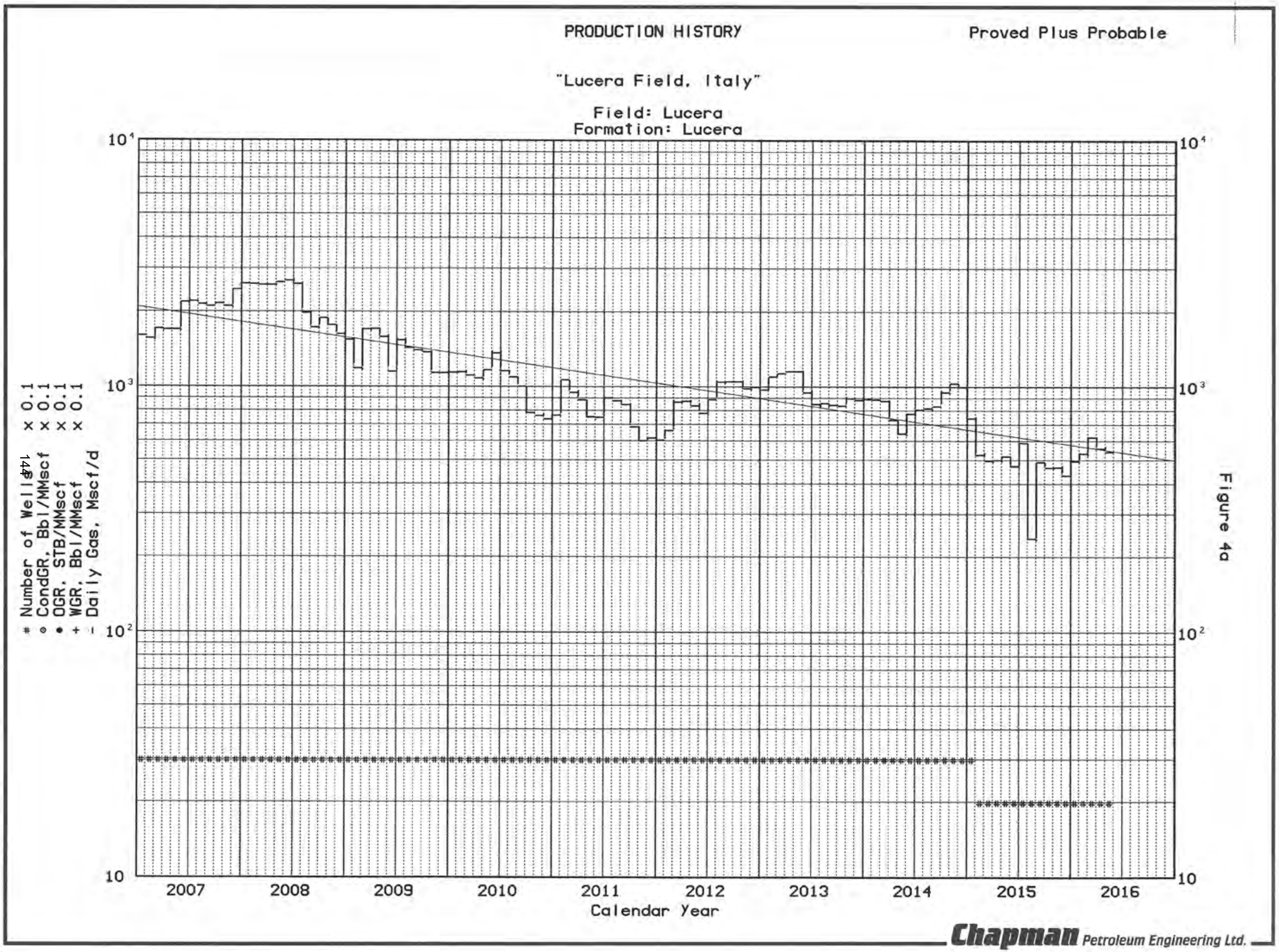


Figure 3a

Chapman Petroleum Engineering Ltd.



PRODUCTION HISTORY
Proved Developed Producing
"Lucera Field, Italy"
Field: Lucera
Formation: Lucera
5000
4000
3000
2000
1000
0
○ Daily Gas, Mscf/d
02
04
06
08
10
Cumulative Production Bscf
Figure 3b
Chapman Petroleum Engineering Ltd.


PRODUCTION HISTORY
Proved Plus Probable
"Lucera Field, Italy"
Field: Lucera
Formation: Lucera
* Number of Wells x 0.1
⊗ CondGR, Bbl/MMscf x 0.1
● OGR, STB/MMscf x 0.1
+ WGR, Bbl/MMscf x 0.1
- Daily Gas, Mscf/d
144
10^4
10^3
10^2
10
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Calendar Year
Figure 4a
Chapman Petroleum Engineering Ltd.

PRODUCTION HISTORY

Proved Plus Probable

"Lucera Field, Italy"

Field: Lucera
Formation: Lucera

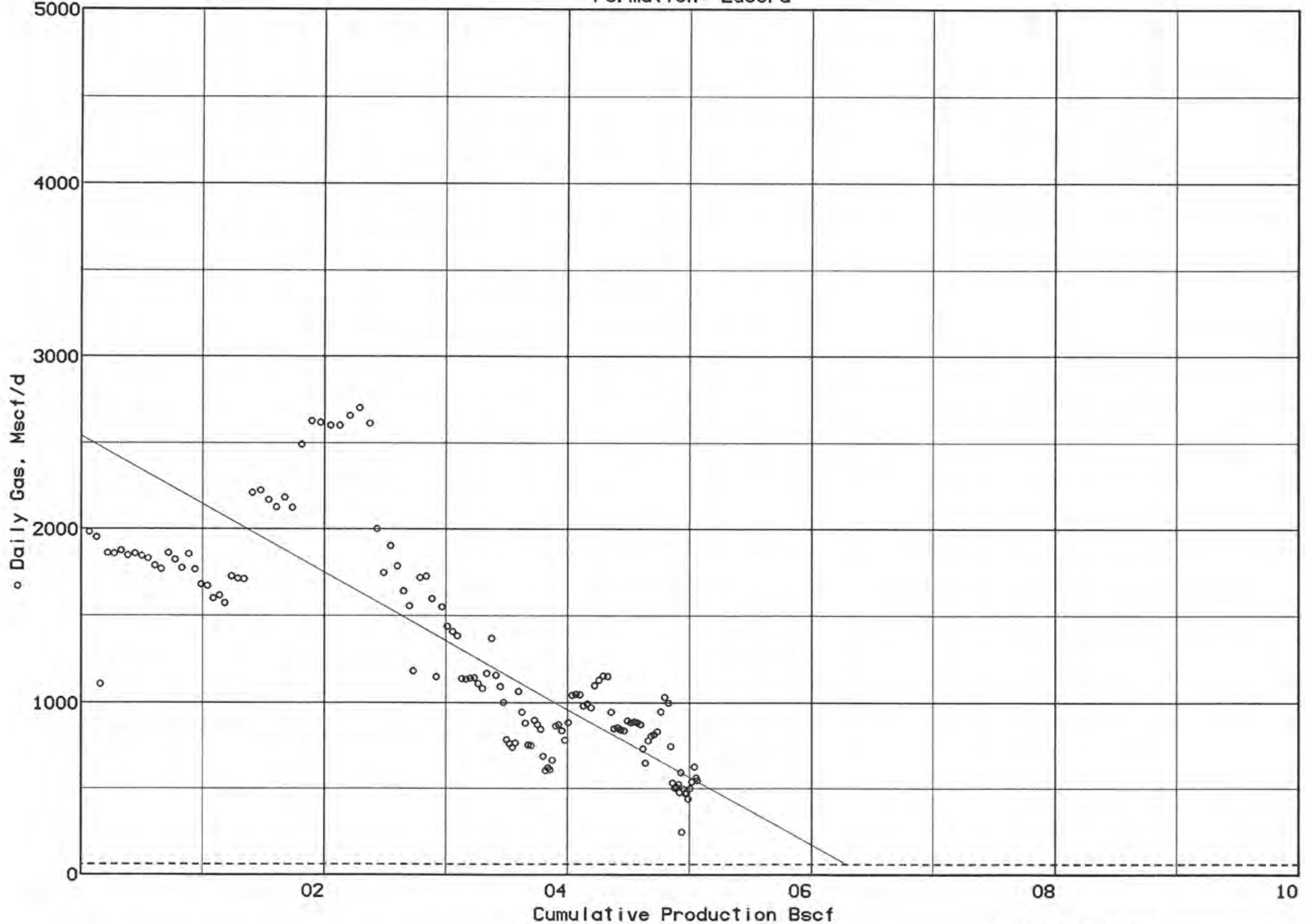


Figure 4b

Chapman Petroleum Engineering Ltd.

Table 3a

Summary of Anticipated Capital Expenditures

Development

September 1, 2016

Zenith Energy Ltd.

Lucera Concession, Onshore Italy

Description	Date	Operation	Capital Interest %	Gross Capital M$	Net Capital M$

No anticipated capital expenditures.

Table 3b

Summary of Anticipated Capital Expenditures
Abandonment and Restoration

September 1, 2016

Zenith Energy Ltd.

Lucera Concession, Onshore Italy

Description	Well Parameters	Capital Interest %	Gross Capital M$	Net Capital M$
Lucera Concession	Abandon 2 gas wells, reclaim the land	13.6000	114	16

Note: **M$ means thousands of dollars.**
The above capital values are expressed in terms of current dollar values without escalation.

Table 4
Summary of Company Reserves and Economics
Before Income Tax
September 1, 2016

Zenith Energy Ltd.

Lucera Concession, Italy

Forecast Prices & Costs

Description		Light and Medium Oil MSTB Gross	Light and Medium Oil MSTB Net	Sales Gas MMscf Gross	Sales Gas MMscf Net	NGL Mbbls Gross	NGL Mbbls Net	Cumulative Cash Flow (BIT) - MUS$ Undisc.	Discounted at: 5%/year	Discounted at: 10%/year	Discounted at: 15%/year	Discounted at: 20%/year
Net To Appraised Interest												
Proved Developed Producing												
Lucera Wells		0	0	112	112	0	0	109	99	90	82	75
Total Proved Developed Producing		**0**	**0**	**112**	**112**	**0**	**0**	**109**	**99**	**90**	**82**	**75**
Probable												
Probable Developed Producing												
Lucera Wells	Incr.	0	0	27	27	0	0	60	45	35	27	22
Total Probable Developed Producing		**0**	**0**	**27**	**27**	**0**	**0**	**60**	**45**	**35**	**27**	**22**
Total Proved Plus Probable		**0**	**0**	**139**	**139**	**0**	**0**	**169**	**144**	**125**	**109**	**97**

MUS$ means thousands of United States dollars.

Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

Columns may not add precisely due to accumulative rounding of values throughout the report.

Table 4a

EVALUATION OF: Lucera Concession, Onshore Italy - Proved Developed Producing

ERGO v7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 29-SEP-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
RUN DATE: 3-OCT-2016 TIME: 9:14
FILE: GlcPP1.DAX

WELL/LOCATION - Lucera Wells
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 871 MMCF
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 136241 -$- (2026)
NOTE: ECONOMIC LIMIT OCCURS IN 2026

INTEREST

AVG WI 13.6000%

ROYALTIES/TAXES

STATE

Sales Gas MMCF

Year	# of Wells	Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net
2016	2	3.91	490.0	58	8	8
2017	2	4.17	436.7	155	21	21
2018	2	4.43	366.9	130	18	18
2019	2	4.77	308.2	109	15	15
2020	2	5.03	258.9	92	13	13
2021	2	5.38	217.5	77	11	11
2022	2	5.73	182.8	65	9	9
2023	2	6.08	153.5	55	7	7
2024	2	6.51	129.0	46	6	6
2025	2	6.94	108.4	38	5	5
SUB				826	112	112
REM				0	0	0
TOT				826	112	112

= P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/MCF	FR After Roy&Oper -M$-	Net back $/MCF	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	31	0	31	0	0	0	.0	6	16	2.76	9	1.14	0	0	0	9	9
2017	0	0	88	0	88	0	0	0	.0	19	42	2.92	26	1.25	0	0	0	26	24
2018	0	0	78	0	78	0	0	0	.0	20	36	3.16	23	1.27	0	0	0	23	19
2019	0	0	71	0	71	0	0	0	.0	20	31	3.44	20	1.34	0	0	0	20	15
2020	0	0	63	0	63	0	0	0	.0	21	26	3.77	16	1.27	0	0	0	16	11
2021	0	0	57	0	57	0	0	0	.0	21	23	4.16	13	1.22	0	0	0	13	8
2022	0	0	51	0	51	0	0	0	.0	21	19	4.64	10	1.09	0	0	0	10	6
2023	0	0	45	0	45	0	0	0	.0	22	17	5.20	6	.87	0	0	0	6	3
2024	0	0	41	0	41	0	0	0	.0	22	14	5.88	4	.63	0	0	0	4	2
2025	136	0	36	0	36	0	0	0	.0	23	12	6.69	1	.25	0	0	19	-17	-7
SUB	136	0	560	0	560	0	0	0	.0	196	236		128		0	0	19	109	90
REM	0	0	0	0	0	0	0	0	.0	0	0		0		0	0	0	0	0
TOT	136	0	560	0	560	0	0	0	.0	196	236		128		0	0	19	109	90

NET PRESENT VALUE (-$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	127732	110792	102537	97665	93228	87278	78906
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	18529	12041	9388	7983	6808	5390	3701
Future Net Revenue .	109203	98752	93149	89682	86420	81887	75205

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	13.6	13.6					
% of Future Revenue.			.0	77.2	22.8	.0	19.5

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/MCF)	.80
NPV @ 5.0% ($/MCF)	.88

Table 4b

EVALUATION OF: Lucera Concession, Onshore Italy - Proved Plus Probable Developed Producing

ERGO V7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 29-SEP-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
RUN DATE: 3-OCT-2016 TIME: 9:14
FILE: GlcRA1.DAX

WELL/LOCATION - Lucera Wells
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 1078 MMCF
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 141745 -$- (2028)
NOTE: ECONOMIC LIMIT OCCURS IN 2028

INTEREST

AVG WI 13.6000%

ROYALTIES/TAXES

STATE

Sales Gas MMCF

Year	# of Wells	Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net
2016	2	3.91	492.9	59	8	8
2017	3	4.17	449.6	160	22	22
2018	2	4.43	391.3	139	19	19
2019	2	4.77	340.6	121	16	16
2020	2	5.03	296.5	105	14	14
2021	2	5.38	258.0	92	12	12
2022	2	5.73	224.6	80	11	11
2023	2	6.08	195.5	69	9	9
2024	2	6.51	170.2	60	8	8
2025	2	6.94	148.1	53	7	7
2026	2	7.12	128.9	46	6	6
2027	2	7.29	112.2	40	5	5
SUB				1023	139	139
REM				0	0	0
TOT				1023	139	139

= P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/MCF	FR After Roy&Oper -M$-	Net back $/MCF	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	31	0	31	0	0	0	.0	6	16	2.76	9	1.15	0	0	0	9	9
2017	0	0	90	0	90	0	0	0	.0	19	43	2.89	28	1.27	0	0	0	28	26
2018	0	0	84	0	84	0	0	0	.0	20	38	3.09	25	1.34	0	0	0	25	21
2019	0	0	78	0	78	0	0	0	.0	20	34	3.31	24	1.47	0	0	0	24	18
2020	0	0	72	0	72	0	0	0	.0	21	30	3.56	21	1.47	0	0	0	21	15
2021	0	0	67	0	67	0	0	0	.0	21	27	3.85	19	1.53	0	0	0	19	12
2022	0	0	62	0	62	0	0	0	.0	21	24	4.18	17	1.55	0	0	0	17	10
2023	0	0	57	0	57	0	0	0	.0	22	21	4.57	14	1.51	0	0	0	14	7
2024	0	0	53	0	53	0	0	0	.0	22	19	5.01	12	1.50	0	0	0	12	6
2025	0	0	50	0	50	0	0	0	.0	23	17	5.52	10	1.42	0	0	0	10	4
2026	0	0	44	0	44	0	0	0	.0	23	15	6.12	6	1.00	0	0	0	6	2
2027	142	0	39	0	39	0	0	0	.0	24	13	6.81	3	.48	0	0	19	-17	-6
SUB	142	0	729	0	729	0	0	0	.0	243	298		189		0	0	19	169	125
REM	0	0	0	0	0	0	0	0	.0	0	0		0		0	0	0	0	0
TOT	142	0	729	0	729	0	0	0	.0	243	298		189		0	0	19	169	125

NET PRESENT VALUE (-$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	188708	155542	140244	131493	123705	113537	99779
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	19277	11363	8374	6864	5647	4241	2674
Future Net Revenue .	169431	144180	131870	124629	118058	109296	97105

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	13.6	13.6					
% of Future Revenue.			.0	74.1	25.9	.0	23.2

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/MCF)	.90
NPV @ 5.0% ($/MCF)	1.04

MISANO ADRIATICO GAS CONCESSION

ONSHORE, ITALY

INDEX

Discussion

MISANO ADRIATICO GAS CONCESSION
ONSHORE ITALY
DISCUSSION

Property Description

The Company owns 100% working interest in the Misano Adriatico gas concession covering approximately 18,610 acres, and located onshore Italy along the Adriatic coast. This concession is scheduled to expire in 2020 but an extension is expected to be granted based on the remaining reserves.

A map showing the Misano Adriatico concession location is presented in Figure 1a, and a description of the ownership is presented in Table 1.

Geology

The regional geology of Italy as shown in Fig 2a places the company's properties in the on-land shallow depths of the Apenninic Foredeep basin.

The Apennines are the consequences of the subduction of three types of lithosphere with different characteristics, but pertaining to the same Adriatic plate.[1]

1. In the north central Apennines, thin continental lithosphere at the surface in the foreland, and probably thinner at depth, occurs
2. In the southern Apennines, thick continental lithosphere occurs in the foreland, whereas probably old oceanic lithosphere constitutes the slab at depth to the west (northern prologation of the Ionian Mesozoic basin
3. In the southern sector, offshore Calabria, old oceanic Ionian lithosphere occurs both in the foreland and at depth.

The Misano Adriatico exploration play has gas resources in the Cenozoic Upper Tertiary Pliocene sand levels as represented in the Stratigraphic Column of Fig 2b.

[1] 'An Introduction To The Italian Geology' – Carlo Doglioni and Giovanni Flores, 1997

Reserves

Total gross proved developed producing conventional non-associated marketable gas reserves of 112 MMscf have been estimated for the one producing gas well. This estimate is based on production decline analysis as presented in Figures 3a and 3b.

Gross probable additional developed producing conventional non-associated marketable gas reserves of 61 MMscf have been estimated for the same well based on production decline analysis assuming a lesser decline rate, as presented in Figures 4a and 4b.

Production

The Misano Adriatico gas concession is being produced from well Misano 2 which is currently producing 45 Mscf/d.

Product Prices

An average 2016 gas price of $4.94/Mscf has been used for this area based on information provided by the Company, which reflects a correlation to World Bank European posted gas prices of 110%.

Capital Expenditures

There are no forecasted capital expenditures as presented in Table 3a.

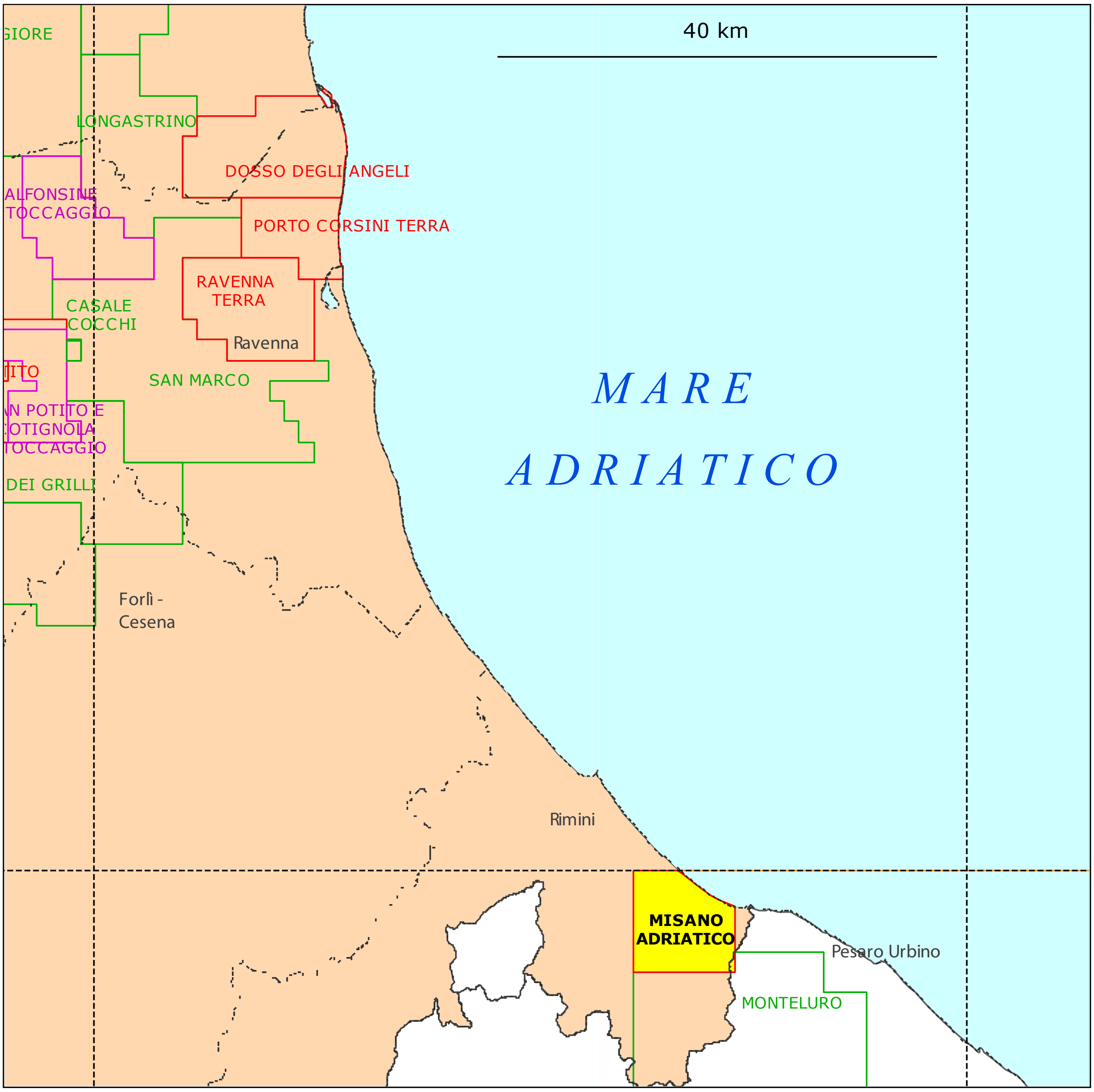
Total abandonment and reclamation liabilities of $57,000 ($57,000 net to the Company) have been estimated based on a reasonable expectation for these type of wells. The abandonment and site reclamation costs are presented in Table 3b.

Operating Costs

Operating costs for this area have been estimated to be $1,200 per well per month plus $1.00/Mscf, based on information provided by the Company.

Economics

An economic summary is presented on Table 4 and the results of our economic analysis are presented on Tables 4a and 4b.



ZENITH ENERGY LTD.

MISANO ADRIATICO CONCESSION

EMILIA ROMAGNA REGION, ITALY

LAND MAP

SEP. 2016	JOB No. 6264	FIGURE No. 1

155

Chapman Petroleum Engineering Ltd.

Table 1

Schedule of Lands, Interests and Royalty Burdens
September 1, 2016

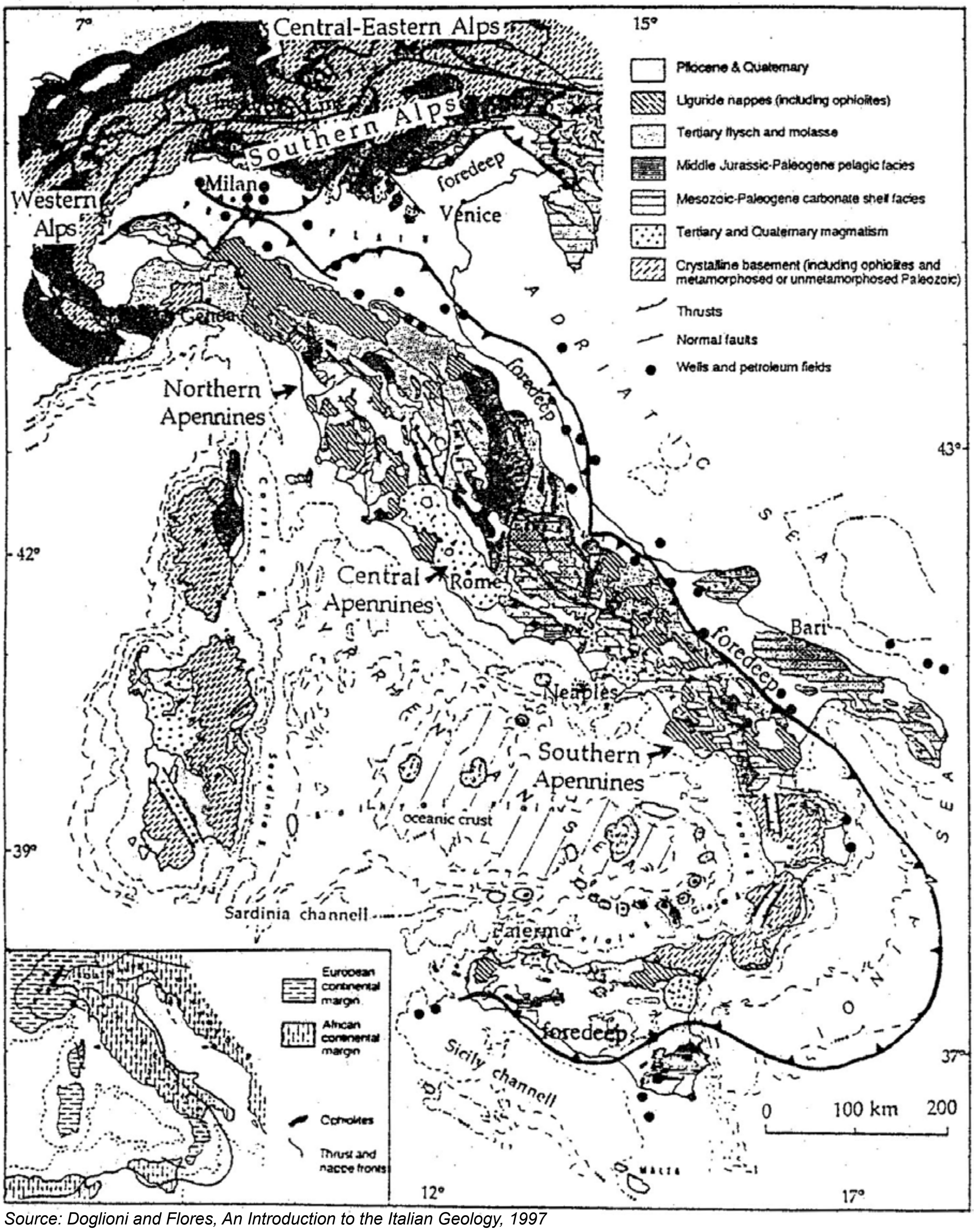
Zenith Energy Ltd.

Misano Adriatico Concession, Onshore Italy

			Appraised Interest		Royalty Burdens	
Description	Rights Owned	Gross Acres	Working %	Royalty %	Basic %	Overriding %
Misano Adriatico Concession	[A]	18,610	100.0000	-	7.0000 [1]	

General Notes : [1] Only if over 25 million cubic meters annually (882.9 MMCF), 0% at forecast rates.

Rights Owned : [A] All P&NG.
This Concession is scheduled to expire in 2020 but an extension is expected to be granted based on the remaining reserves.



Source: Doglioni and Flores, An Introduction to the Italian Geology, 1997

ZENITH ENERGY LTD.

ITALY

REGIONAL GEOLOGY

SEP. 2016 JOB No. 6264 FIGURE No. 2a

157

Chapman Petroleum Engineering Ltd.

System	Series	Stage	Age (Ma)	ZONES OF INTEREST
Quaternary	Pleistocene	Gelasian	younger	
Neogene	Pliocene	Piacenzian	2.588–3.600	GAS ZONE
		Zanclean	3.600–5.332	GAS ZONE
	Miocene	Messinian	5.332–7.246	GAS ZONE
		Tortonian	7.246–11.608	
		Serravallian	11.608–13.65	
		Langhian	13.65–15.97	
		Burdigalian	15.97–20.43	
		Aquitanian	20.43–23.03	
Paleogene	Oligocene	Chattian	older	

ZENITH ENERGY LTD.

ITALY

STRATIGRAPHIC CHART

SEP. 2016 **JOB No. 6264** **FIGURE No. 2b**

Chapman *Petroleum Engineering Ltd.*

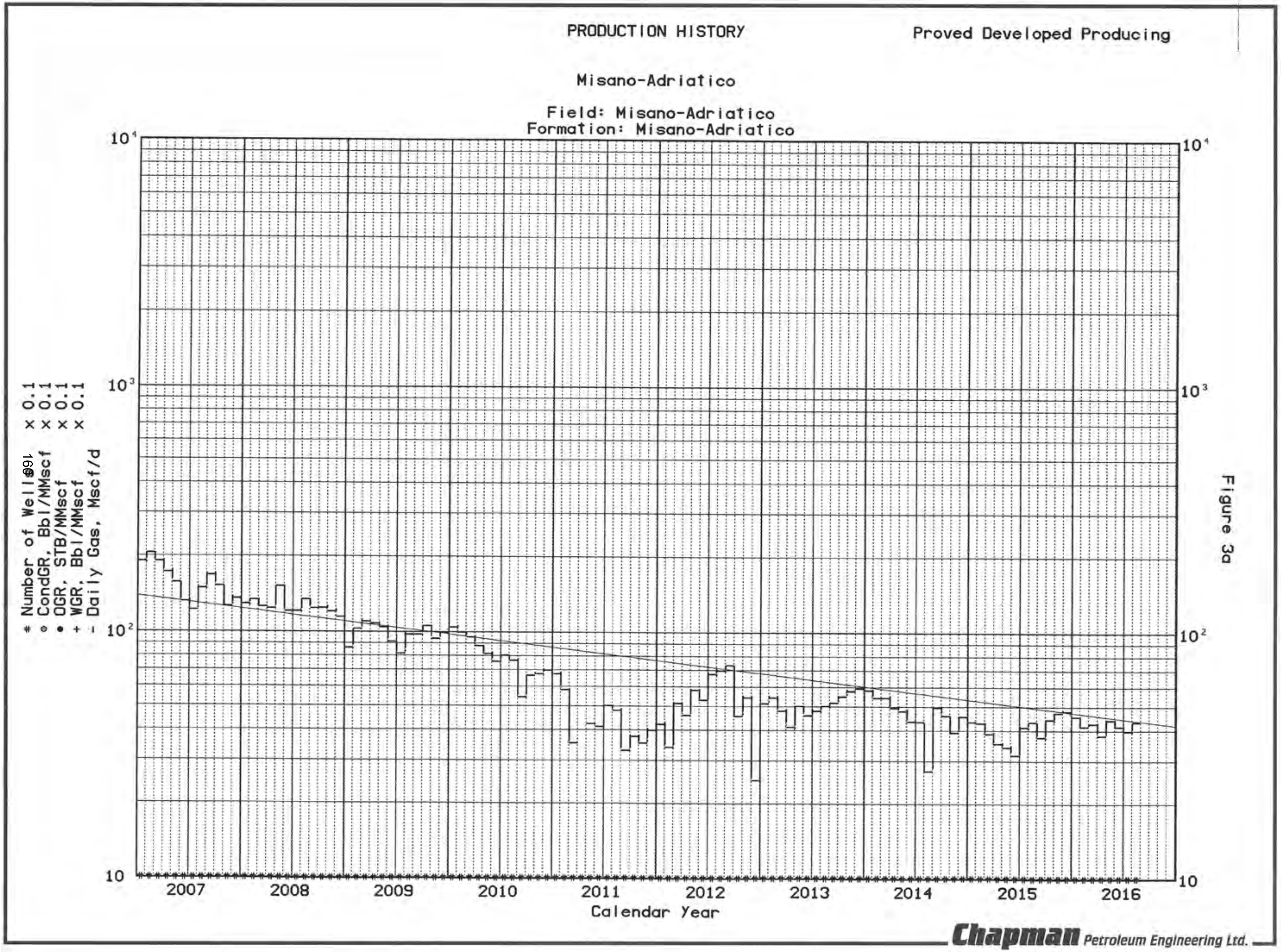
Table 2

Summary of Gross Reserves
September 1, 2016

Zenith Energy Ltd.

Misano Adriatico Concession, Onshore Italy

Description		Current or Initial Rate Mscf/d	Ultimate RGIP (MMscf)	Cumulative Production (MMscf)	Remaining RGIP (raw) (MMscf)	Remaining RGIP (sales) (MMscf)	Remaining NGLs (MBbls)	Reference
Proved Developed Producing								
Misano Adriatico Concession	Misano 2	45	490	397	93	88	0	Fig 3a & b
	Total Proved	**45**	**490**	**397**	**93**	**88**	**0**	
Probable Incremental								
Misano Adriatico Concession	Misano 2 (Incr.)	0	43	0	43	41	0	Fig 4a & b
	Total Probable	**0**	**43**	**0**	**43**	**41**	**0**	
	Total Proved Plus Probable	**45**	**533**	**397**	**136**	**129**	**0**	


PRODUCTION HISTORY
Proved Developed Producing
Misano-Adriatico
Field: Misano-Adriatico
Formation: Misano-Adriatico
Figure 3a
10^4
10^3
10^2
10
* Number of Wells × 0.1
◦ CondGR, Bbl/MMscf × 0.1
• OGR, STB/MMscf × 0.1
+ WGR, Bbl/MMscf × 0.1
- Daily Gas, Mscf/d
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Calendar Year
Chapman Petroleum Engineering Ltd.

PRODUCTION HISTORY

Proved Developed Producing

Misano-Adriatico

Field: Misano-Adriatico
Formation: Misano-Adriatico

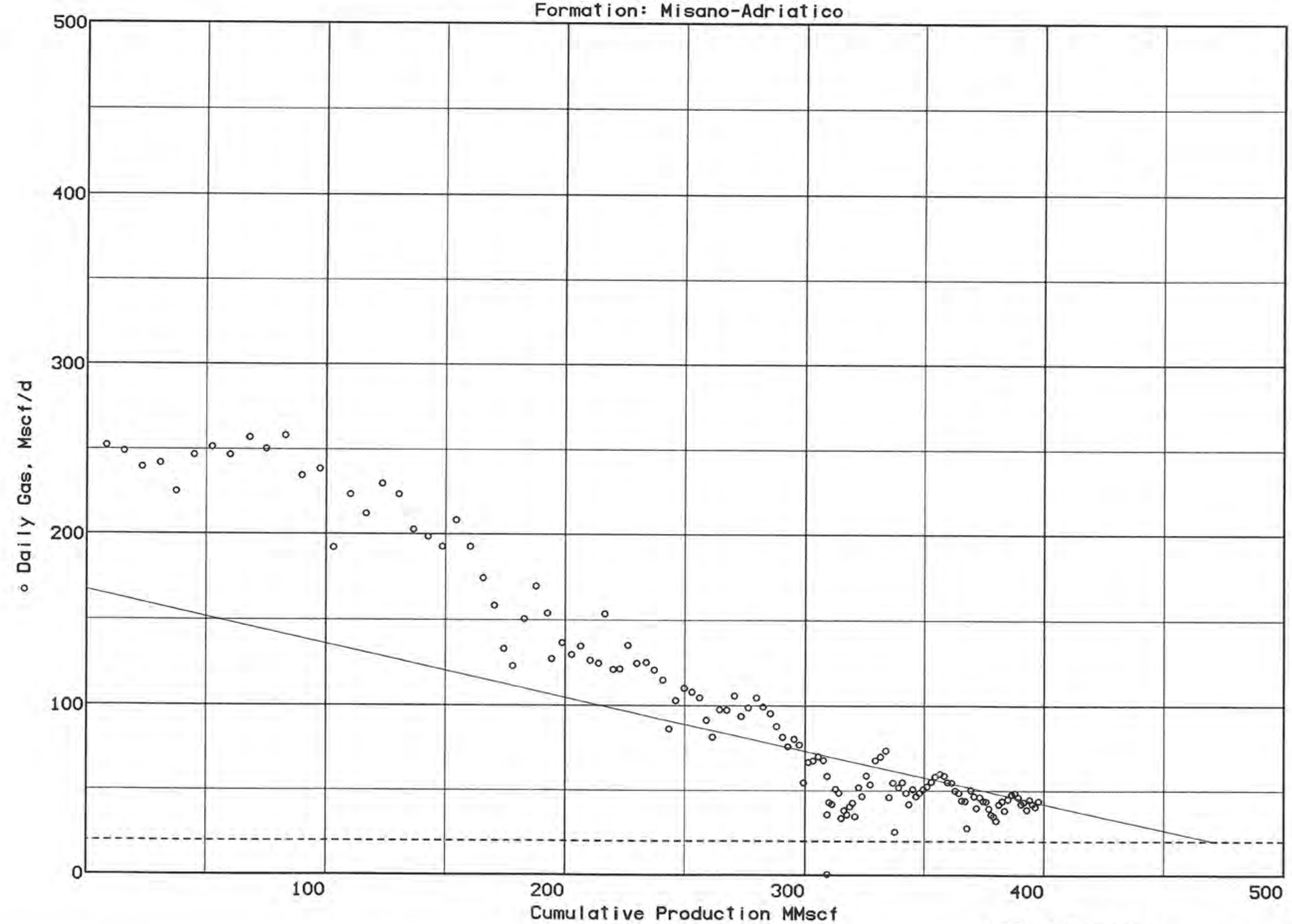


Figure 3b

Chapman Petroleum Engineering Ltd.

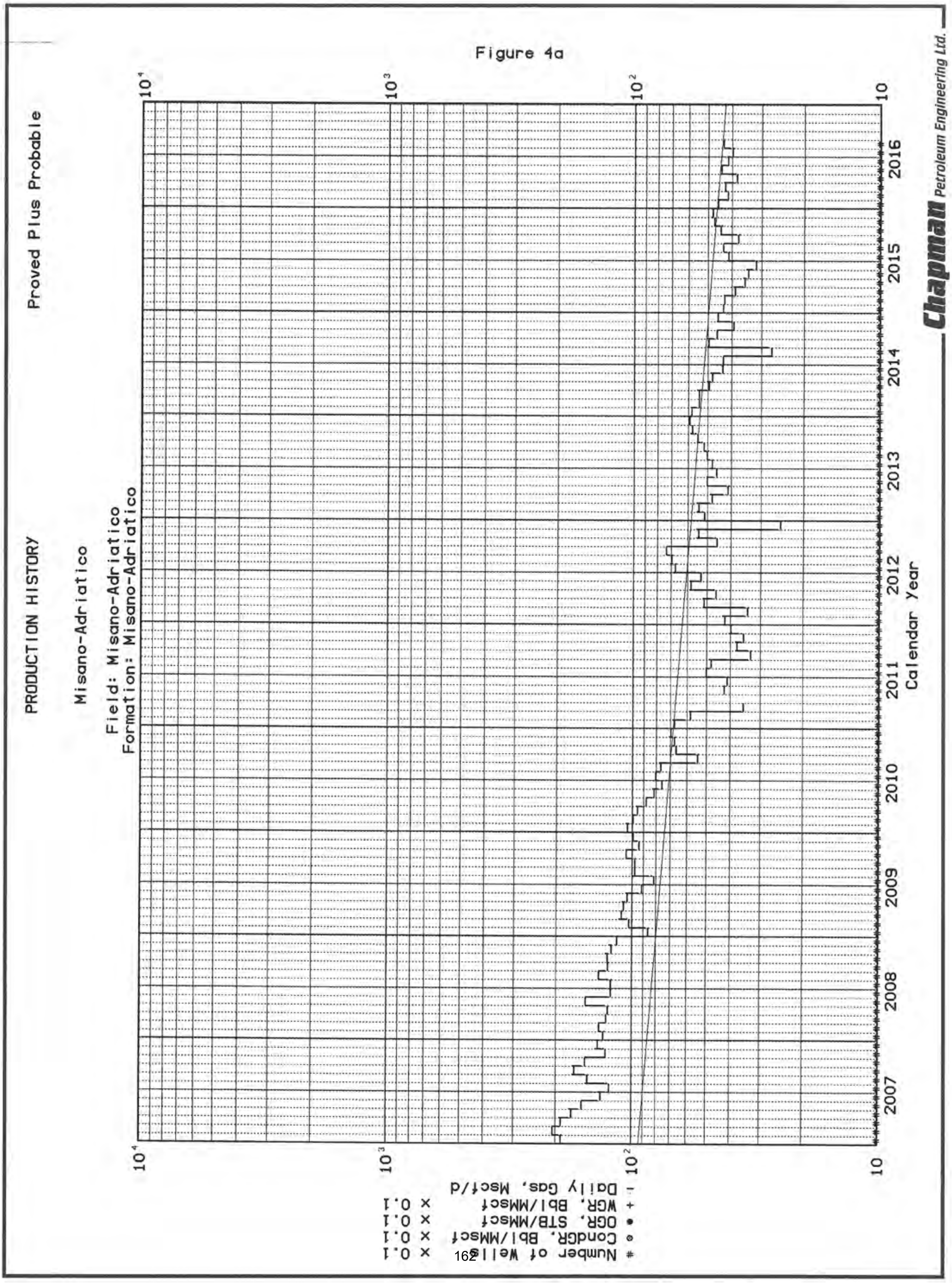


Figure 4a
PRODUCTION HISTORY
Proved Plus Probable
Misano-Adriatico
Field: Misano-Adriatico
Formation: Misano-Adriatico
Calendar Year
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
10⁴
10³
10²
10
Number of Wells × 0.1
⊕ CondGR, Bbl/MMscf × 0.1
● OGR, STB/MMscf × 0.1
+ WGR, Bbl/MMscf × 0.1
- Daily Gas, Mscf/d
Chapman Petroleum Engineering Ltd.

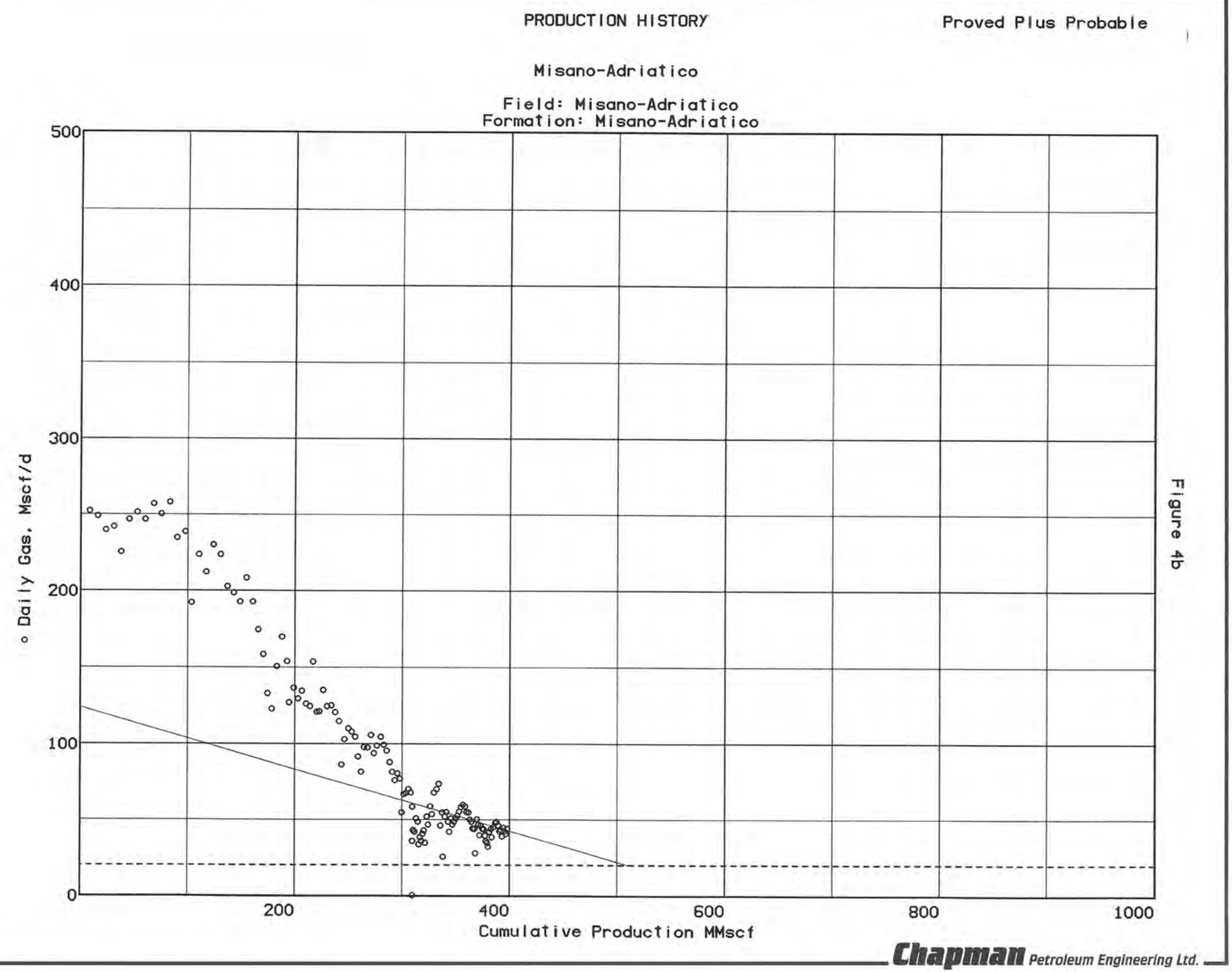

PRODUCTION HISTORY
Proved Plus Probable
Misano-Adriatico
Field: Misano-Adriatico
Formation: Misano-Adriatico
500
400
300
200
100
0
∘ Daily Gas, Mscf/d
200
400
600
800
1000
Cumulative Production MMscf
Chapman Petroleum Engineering Ltd.

Figure 4b

Table 3a

Summary of Anticipated Capital Expenditures

Development

September 1, 2016

Zenith Energy Ltd.

Misano Adriatico Concession, Onshore Italy

Description	Date	Operation	Capital Interest %	Gross Capital M$	Net Capital M$
		No anticipated capital expenditures.			

Table 3b

Summary of Anticipated Capital Expenditures
Abandonment and Restoration

September 1, 2016

Zenith Energy Ltd.

Misano Adriatico Concession, Onshore Italy

Description	Well Parameters	Capital Interest %	Gross Capital M$	Net Capital M$
Misano Adriatico Concession	Abandon 1 gas well, reclaim the land	100.0000	57	57
	Total Abandonment and Restoration		**57**	**57**

Note: **M$ means thousands of dollars.**
The above capital values are expressed in terms of current dollar values without escalation.

Table 4
Summary of Company Reserves and Economics
Before Income Tax
September 1, 2016

Zenith Energy Ltd.

Misano Adriatico Concession, Italy

Forecast Prices & Costs

Description		Net To Appraised Interest: Reserves: Light and Medium Oil MSTB Gross	Net	Sales Gas MMscf Gross	Net	NGL Mbbls Gross	Net	Cumulative Cash Flow (BIT) - MUS$ Undisc.	Discounted at: 5%/year	10%/year	15%/year	20%/year
Proved Developed Producing												
Misano-2		0	0	112	112	0	0	316	269	229	197	172
Total Proved Developed Producing		**0**	**0**	**112**	**112**	**0**	**0**	**316**	**269**	**229**	**197**	**172**
Probable												
Probable Developed Producing												
Misano-2	Incr.	0	0	61	61	0	0	312	188	118	78	54
Total Probable Developed Producing		**0**	**0**	**61**	**61**	**0**	**0**	**312**	**188**	**118**	**78**	**54**
Total Proved Plus Probable		**0**	**0**	**173**	**173**	**0**	**0**	**628**	**457**	**347**	**275**	**226**

MUS$ means thousands of United States dollars.

Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

Columns may not add precisely due to accumulative rounding of values throughout the report.

Table 4a

EVALUATION OF: Misano Adriatico Concession, Onshore Italy - Proved Developed Producing

ERGO v7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 29-SEP-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
RUN DATE: 29-SEP-2016 TIME: 16:34
FILE: GmiPP1.DAX

WELL/LOCATION - Misano-2
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 118 MMCF
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 76714 -$- (2033)
NOTE: ECONOMIC LIMIT OCCURS IN 2033

INTEREST

AVG WI 100.0000%

ROYALTIES/TAXES

STATE

Sales Gas MMCF

Year	# of Wells	Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net
2016	1	4.94	41.9	5	5	5
2017	1	5.27	38.8	14	14	14
2018	1	5.60	34.5	12	12	12
2019	1	6.04	30.7	11	11	11
2020	1	6.36	27.3	10	10	10
2021	1	6.80	24.3	9	9	9
2022	1	7.24	21.6	8	8	8
2023	1	7.68	19.2	7	7	7
2024	1	8.23	17.1	6	6	6
2025	1	8.78	15.2	5	5	5
2026	1	9.00	13.5	5	5	5
2027	1	9.22	12.0	4	4	4
2028	1	9.44	10.7	4	4	4
2029	1	9.66	9.5	3	3	3
2030	1	9.88	8.5	3	3	3
SUB				107	107	107
REM				5	5	5
TOT				112	112	112

* P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -$-	FR Oil -$-	FR SaleGas -$-	FR Products -$-	FR Total -$-	Royalties State -$-	Royalties Other -$-	Royalties Mineral -$-	-%-	Operating Costs Fixed -$-	Operating Costs Variable -$-	Operating Costs $/MCF	FR After Roy&Oper -$-	Net back $/MCF	Proc& Other Income -$-	Cap'l Costs -$-	Aband Costs -$-	Future Net Rev Undisc -$-	Future Net Rev 10.0% -$-
2016	0	0	24843	0	24843	0	0	0	.0	4734	5296	1.99	14813	2.94	0	0	0	14813	14579
2017	0	0	73562	0	73562	0	0	0	.0	14487	14996	2.11	44080	3.16	0	0	0	44080	40710
2018	0	0	69519	0	69519	0	0	0	.0	14777	13605	2.28	41138	3.31	0	0	0	41138	34539
2019	0	0	66683	0	66683	0	0	0	.0	15072	12342	2.48	39268	3.55	0	0	0	39268	29973
2020	0	0	62546	0	62546	0	0	0	.0	15374	11198	2.70	35975	3.66	0	0	0	35975	24963
2021	0	0	59468	0	59468	0	0	0	.0	15681	10159	2.96	33628	3.85	0	0	0	33626	21213
2022	0	0	56306	0	56306	0	0	0	.0	15995	9216	3.24	31095	4.00	0	0	0	31095	17832
2023	0	0	53116	0	53116	0	0	0	.0	16314	8361	3.57	28440	4.11	0	0	0	28440	14827
2024	0	0	50619	0	50619	0	0	0	.0	16641	7586	3.94	26392	4.29	0	0	0	26392	12508
2025	0	0	48024	0	48024	0	0	0	.0	16974	6882	4.36	24168	4.42	0	0	0	24168	10413
2026	0	0	43783	0	43783	0	0	0	.0	17313	6244	4.84	20226	4.16	0	0	0	20226	7922
2027	0	0	39892	0	39892	0	0	0	.0	17659	5664	5.39	16568	3.83	0	0	0	16568	5900
2028	0	0	36327	0	36327	0	0	0	.0	18013	5139	6.01	13175	3.42	0	0	0	13175	4265
2029	0	0	33062	0	33062	0	0	0	.0	18373	4662	6.73	10027	2.93	0	0	0	10027	2951
2030	0	0	30075	0	30075	0	0	0	.0	18740	4230	7.54	7105	2.33	0	0	0	7105	1901
SUB	0	0	747824	0	747824	0	0	0	.0	236145	125580		386099		0	0	0	386099	244495
REM	76714	0	51667	0	51667	0	0	0	.0	38230	7251		6186		0	0	76714	-70529	-15496
TOT	76714	0	799491	0	799491	0	0	0	.0	274376	132831		392285		0	0	76714	315570	228998

NET PRESENT VALUE (-$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	392285	304325	266663	245959	228051	205408	176091
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	76714	35429	22680	16961	12751	8390	4277
Future Net Revenue .	315570	268896	243983	228998	215300	197018	171814

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			.0	50.9	49.1	.0	39.5

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/MCF)	2.04
NPV @ 5.0% ($/MCF)	2.40

Table 4b

EVALUATION OF: Misano Adriatico Concession, Onshore Italy - Proved Plus Probable Developed P
ERGO v7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 29-SEP-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
RUN DATE: 29-SEP-2016 TIME: 16:36
FILE: GmiRA1.DAX

WELL/LOCATION - Misano-2
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 182 MMCF
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 77 -M$- (2042)
NOTE: ECONOMIC LIMIT OCCURS IN 2042

INTEREST

AVG WI 100.0000%

ROYALTIES/TAXES

STATE

Sales Gas MMCF

Year	# of Wells	Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net
2016	1	4.94	42.2	5	5	5
2017	1	5.27	40.1	14	14	14
2018	1	5.60	37.2	13	13	13
2019	1	6.04	34.5	12	12	12
2020	1	6.36	32.0	12	12	12
2021	1	6.80	29.6	11	11	11
2022	1	7.24	27.5	10	10	10
2023	1	7.68	25.5	9	9	9
2024	1	8.23	23.6	8	8	8
2025	1	8.78	21.9	8	8	8
2026	1	9.00	20.3	7	7	7
2027	1	9.22	18.8	7	7	7
2028	1	9.44	17.4	6	6	6
2029	1	9.66	16.2	6	6	6
2030	1	9.88	15.0	5	5	5
SUB				135	135	135
REM				39	39	39
TOT				173	173	173

* P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/MCF	FR After Roy&Oper -M$-	Net back $/MCF	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	25	0	25	0	0	0	.0	5	5	1.99	15	2.95	0	0	0	15	15
2017	0	0	76	0	76	0	0	0	.0	14	16	2.08	46	3.19	0	0	0	46	43
2018	0	0	75	0	75	0	0	0	.0	15	15	2.20	46	3.40	0	0	0	46	38
2019	0	0	75	0	75	0	0	0	.0	15	14	2.33	46	3.70	0	0	0	46	35
2020	0	0	73	0	73	0	0	0	.0	15	13	2.47	45	3.89	0	0	0	45	31
2021	0	0	73	0	73	0	0	0	.0	16	12	2.63	45	4.17	0	0	0	45	28
2022	0	0	72	0	72	0	0	0	.0	16	12	2.80	44	4.44	0	0	0	44	25
2023	0	0	70	0	70	0	0	0	.0	16	11	2.99	43	4.69	0	0	0	43	22
2024	0	0	70	0	70	0	0	0	.0	17	10	3.19	43	5.04	0	0	0	43	20
2025	0	0	69	0	69	0	0	0	.0	17	10	3.41	42	5.37	0	0	0	42	18
2026	0	0	66	0	66	0	0	0	.0	17	9	3.65	39	5.34	0	0	0	39	15
2027	0	0	62	0	62	0	0	0	.0	18	9	3.92	36	5.30	0	0	0	36	13
2028	0	0	59	0	59	0	0	0	.0	18	8	4.21	33	5.23	0	0	0	33	11
2029	0	0	56	0	56	0	0	0	.0	18	8	4.52	30	5.14	0	0	0	30	9
2030	0	0	53	0	53	0	0	0	.0	19	7	4.86	27	5.01	0	0	0	27	7
SUB	0	0	975	0	975	0	0	0	.0	236	160		579		0	0	0	579	331
REM	77	0	391	0	391	0	0	0	.0	210	55		126		0	0	77	49	16
TOT	77	0	1366	0	1366	0	0	0	.0	446	215		704		0	0	77	628	347

NET PRESENT VALUE (-M$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	704	480	397	354	319	277	227
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	77	23	11	7	5	2	1
Future Net Revenue .	628	457	386	347	315	275	226

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			.0	48.4	51.6	.0	46.0

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/MCF)	2.00
NPV @ 5.0% ($/MCF)	2.64

SAN MAURO GAS CONCESSION

ONSHORE, ITALY

INDEX

SAN MAURO GAS CONCESSION

ONSHORE ITALY

DISCUSSION

Property Description

The Company owns 18% working interest in the San Mauro gas concession covering approximately 6,257 acres, and located onshore Italy along the Adriatic coast. This concession is scheduled to expire in 2020 but an extension is expected to be granted based on remaining reserves.

A map showing the San Mauro concession location is presented in Figure 1a, and a description of the ownership is presented in Table 1.

Geology

The regional geology of Italy as shown in Fig 2a places the company's properties in the on-land shallow depths of the Apenninic Foredeep basin.

The Apennines are the consequences of the subduction of three types of lithosphere with different characteristics, but pertaining to the same Adriatic plate.[1]

1. In the north central Apennines, thin continental lithosphere at the surface in the foreland, and probably thinner at depth, occurs
2. In the southern Apennines, thick continental lithosphere occurs in the foreland, whereas probably old oceanic lithosphere constitutes the slab at depth to the west (northern prologation of the Ionian Mesozoic basin
3. In the southern sector, offshore Calabria, old oceanic Ionian lithosphere occurs both in the foreland and at depth.

The San Mauro exploration play has gas resources in the Cenozoic Upper Tertiary Pliocene sand levels as represented in the Stratigraphic Column of Fig 2b.

[1] 'An Introduction To The Italian Geology' – Carlo Doglioni and Giovanni Flores, 1997

Reserves

Total gross proved developed producing conventional non-associated marketable gas reserves of 558 MMscf have been estimated for the one producing gas well. This estimate is based on production decline analysis as presented in Figures 3a and 3b.

Gross probable additional developed producing conventional non-associated marketable gas reserves of 391 MMscf have been estimated for the same well based on production ~~decline analysis~~ history assuming a lesser decline rate, as presented in Figures 4a and 4b.

Production

The San Mauro gas concession is being produced from well San Mauro which is currently producing 180 Mscf/d.

Product Prices

An average 2016 gas price of $3.91/Mscf has been used for this area based on information provided by the Company, which reflects a correlation to World Bank European posted gas prices of 87%.

Capital Expenditures

There are no forecasted capital expenditures as presented in Table 3a.

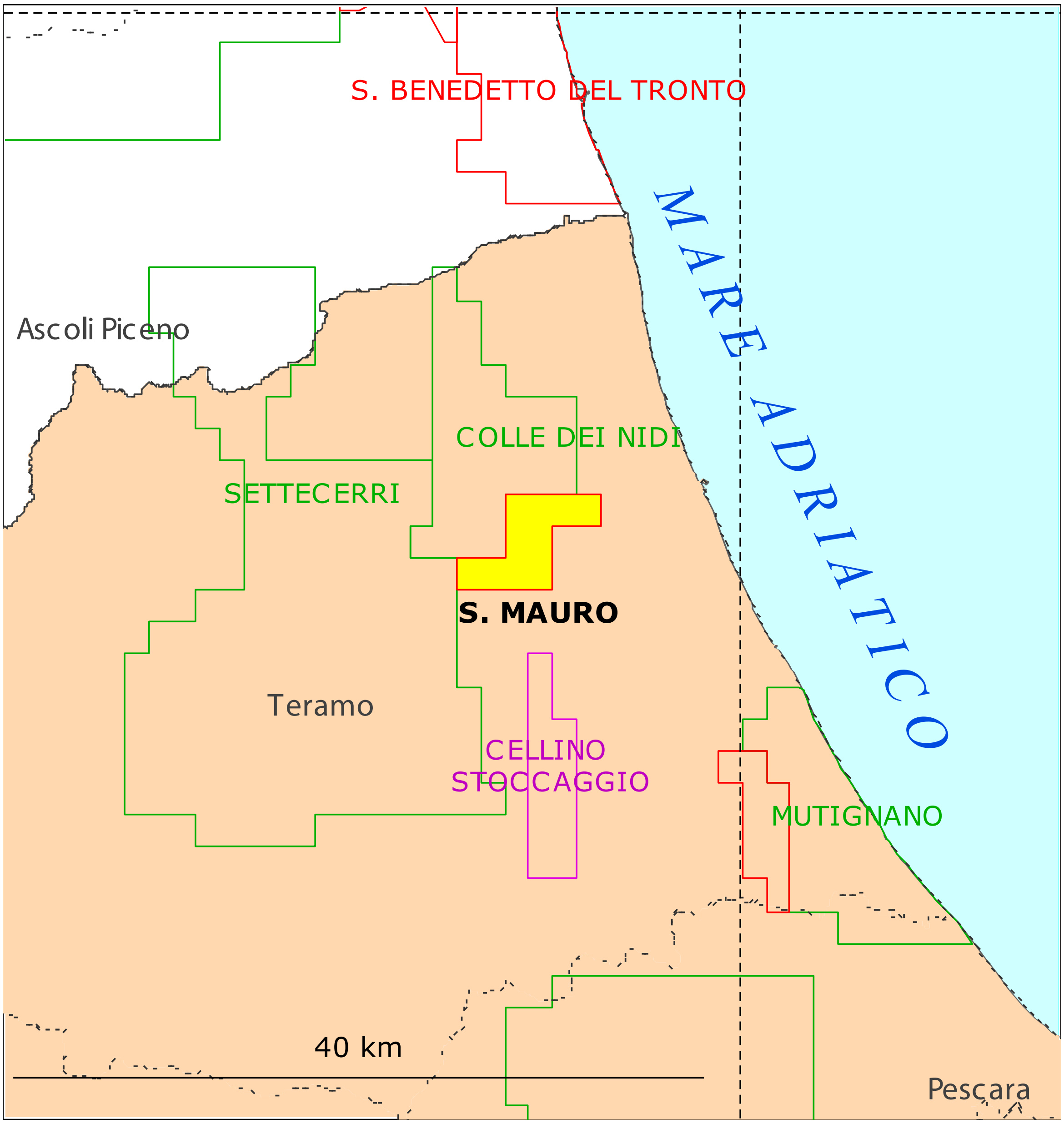
Total abandonment and reclamation liabilities of $57,000 ($10,260 net to the Company) have been estimated based on a reasonable expectation for these types of wells. The abandonment and site reclamation costs are presented in Table 3b.

Operating Costs

Operating costs for this area have been estimated to be $5,000 per well per month plus $2.30/Mscf, based on information provided by the Company.

Economics

An economic summary is presented on Table 4 and the results of our economic analysis are presented on Tables 4a and 4b.



ZENITH ENERGY LTD.

SAN MAURO CONCESSION

ABRUZZO REGION, ITALY

LAND MAP

SEP. 2016 JOB No. 6264 FIGURE No. 1

173

Chapman *Petroleum Engineering Ltd.*

Table 1

Schedule of Lands, Interests and Royalty Burdens
September 1, 2016

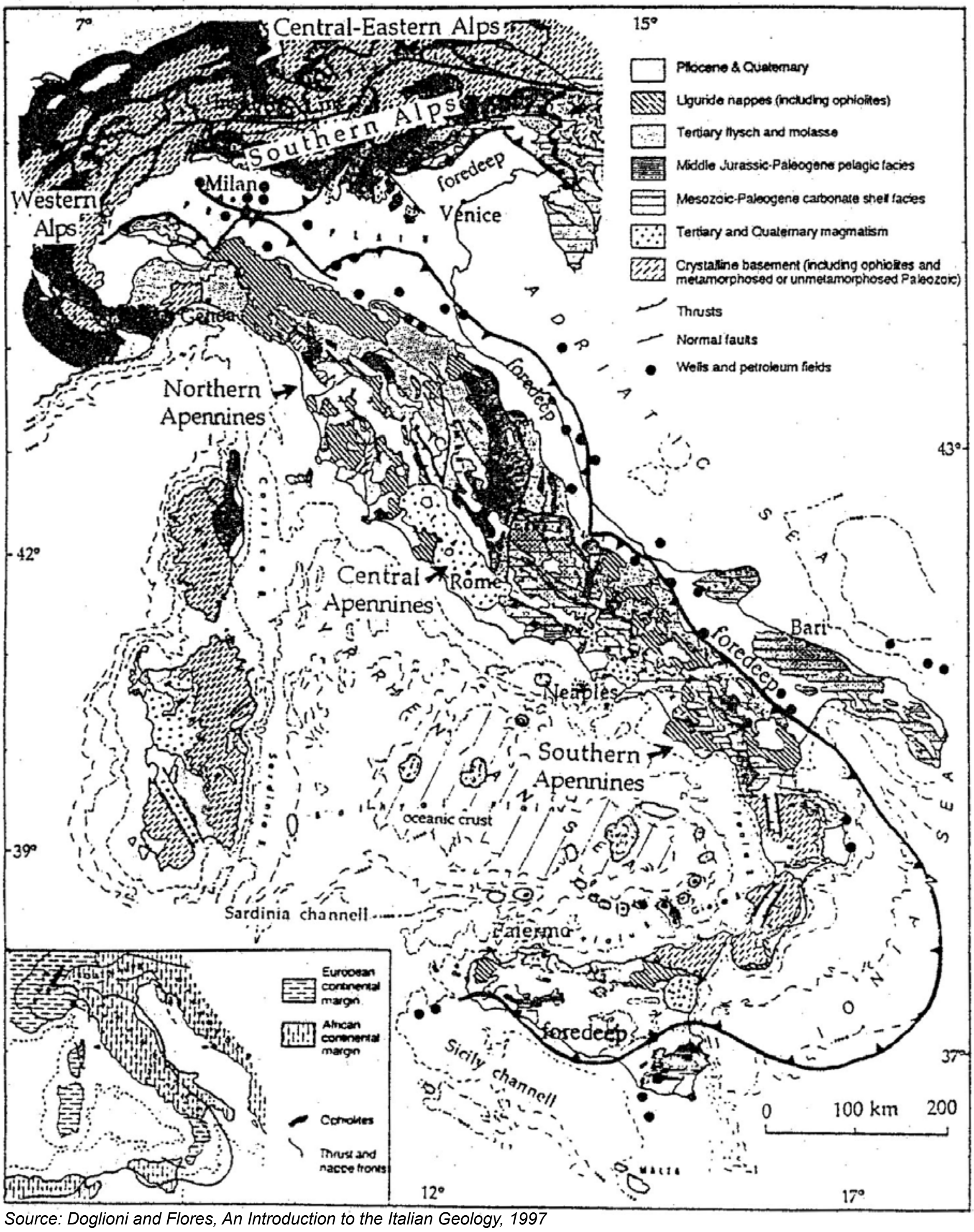
Zenith Energy Ltd.

San Mauro Concession, Onshore Italy

			Appraised Interest		Royalty Burdens	
Description	Rights Owned	Gross Acres	Working %	Royalty %	Basic %	Overriding %
San Mauro Concession	[A]	6,257	18.0000	-	7.0000 [1]	

General Notes : [1] Only if over 25 million cubic meters annually (882.9 MMCF). 0% at forecast rates.

Rights Owned : [A] All P&NG.
This Concession is scheduled to expire in 2020 but an extension is expected to be granted based on the remaining reserves.



Source: Doglioni and Flores, An Introduction to the Italian Geology, 1997

ZENITH ENERGY LTD.
ITALY   **REGIONAL GEOLOGY**
SEP. 2016 JOB No. 6264 FIGURE No. 2a

Chapman Petroleum Engineering Ltd.

System	Series	Stage	Age (Ma)	ZONES OF INTEREST
Quaternary	Pleistocene	Gelasian	younger	
Neogene	Pliocene	Piacenzian	2.588–3.600	GAS ZONE
		Zanclean	3.600–5.332	GAS ZONE
	Miocene	Messinian	5.332–7.246	GAS ZONE
		Tortonian	7.246–11.608	
		Serravallian	11.608–13.65	
		Langhian	13.65–15.97	
		Burdigalian	15.97–20.43	
		Aquitanian	20.43–23.03	
Paleogene	Oligocene	Chattian	older	

ZENITH ENERGY LTD.

ITALY

STRATIGRAPHIC CHART

SEP. 2016 **JOB No. 6264** **FIGURE No. 2b**

Chapman Petroleum Engineering Ltd.

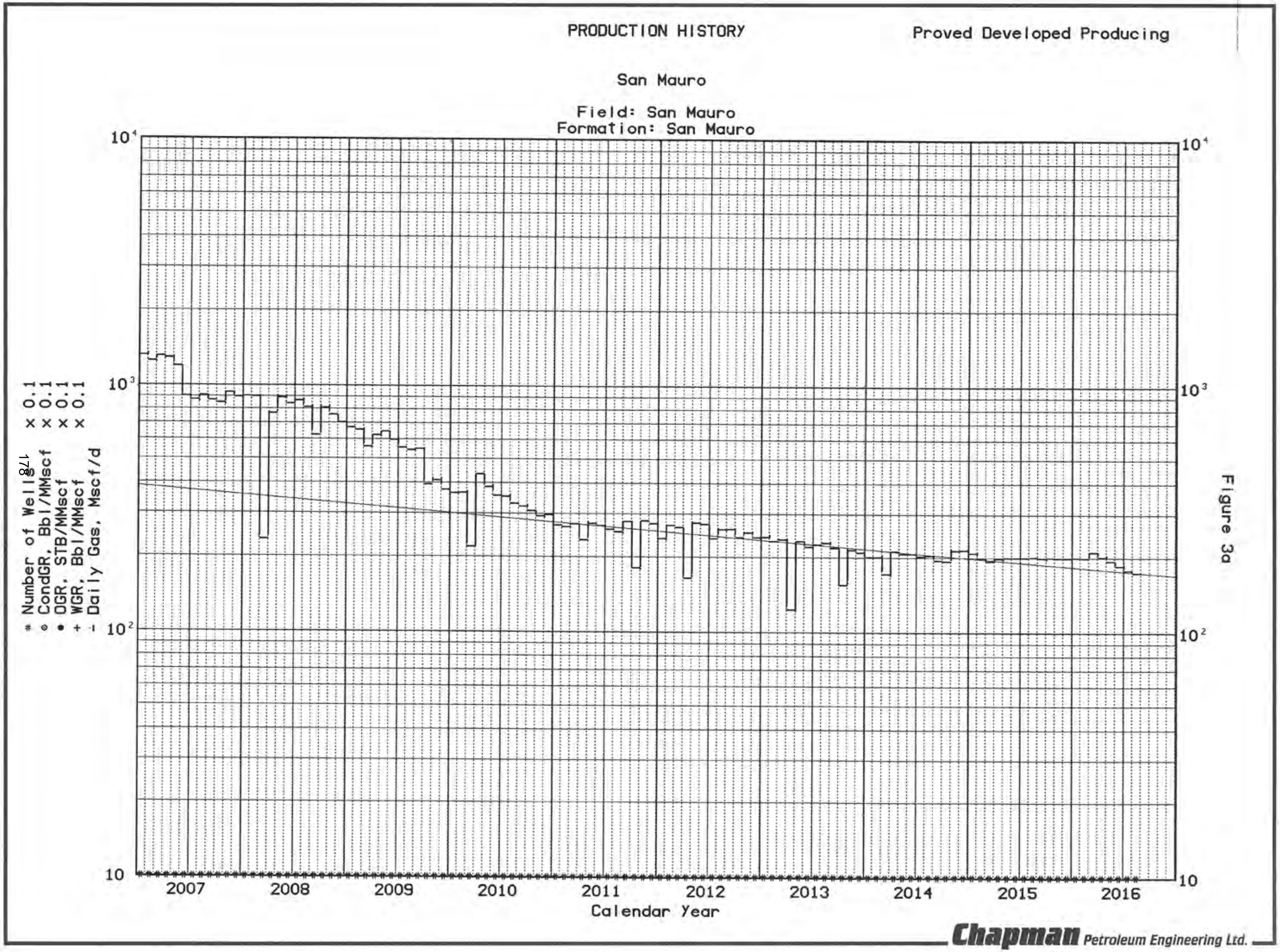
Table 2

Summary of Gross Reserves
September 1, 2016

Zenith Energy Ltd.

San Mauro Concession, Onshore Italy

Description		Current or Initial Rate Mscf/d	Ultimate RGIP (MMscf)	Cumulative Production (MMscf)	Remaining RGIP (raw) (MMscf)	Remaining RGIP (sales) (MMscf)	Remaining NGLs (MBbls)	Reference
Proved Developed Producing								
San Mauro Concession	San Mauro	180	2,390	1,803	587	558	0	Fig 3a & b
	Total Proved	**180**	**2,390**	**1,803**	**587**	**558**	**0**	
Probable Incremental								
San Mauro Concession	San Mauro (Incr.)	0	412	0	412	391	0	Fig 4a & b
	Total Probable	**0**	**412**	**0**	**412**	**391**	**0**	
	Total Proved Plus Probable	**180**	**2,802**	**1,803**	**999**	**949**	**0**	


PRODUCTION HISTORY
Proved Developed Producing
San Mauro
Field: San Mauro
Formation: San Mauro
10⁴
10³
10²
10
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Calendar Year
* Number of Wells × 0.1
◦ CondGR, Bbl/MMscf × 0.1
• OGR, STB/MMscf × 0.1
+ WGR, Bbl/MMscf × 0.1
- Daily Gas, Mscf/d
Figure 3a
Chapman Petroleum Engineering Ltd.

178

PRODUCTION HISTORY

Proved Developed Producing

San Mauro

Field: San Mauro
Formation: San Mauro

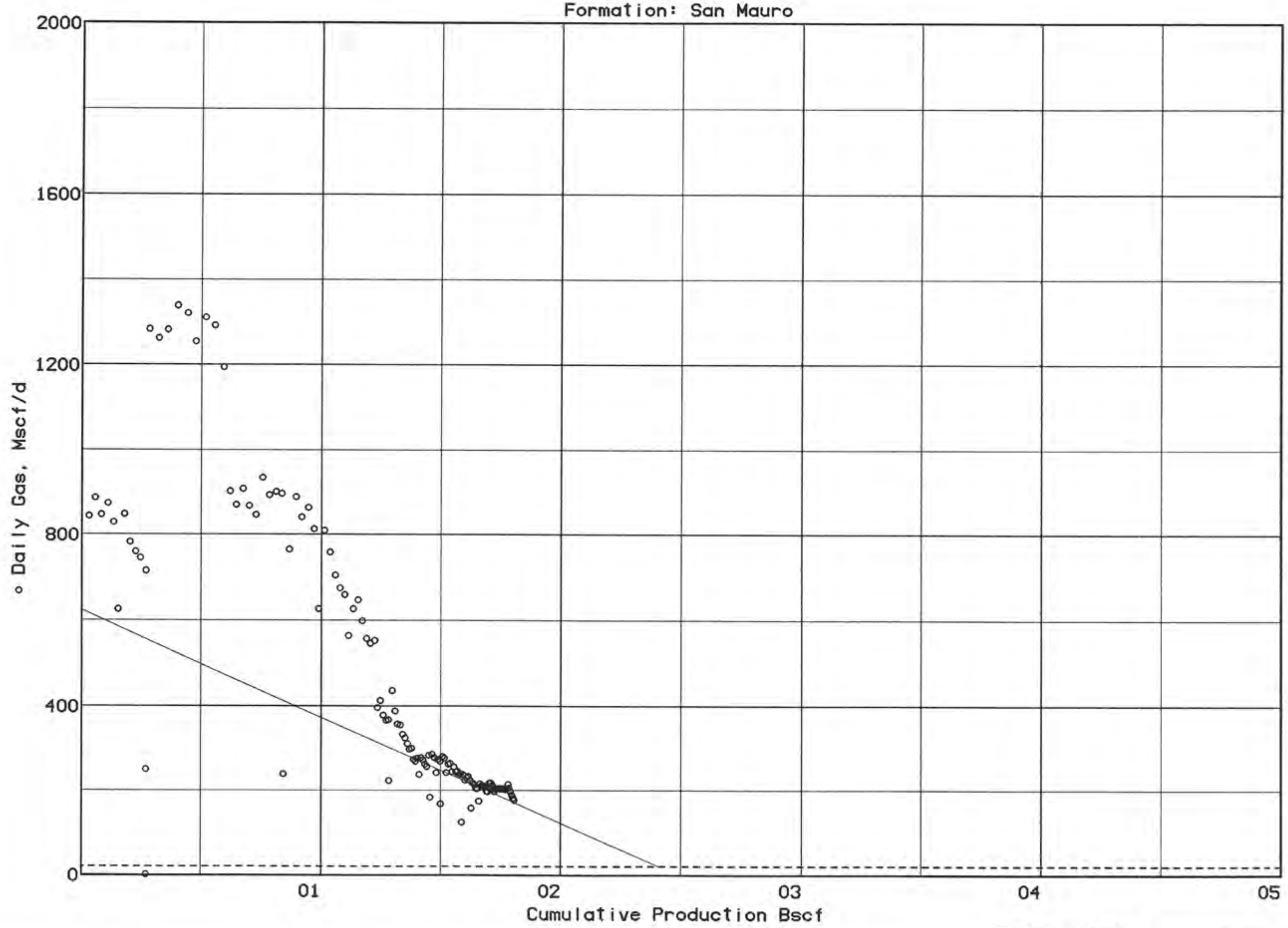
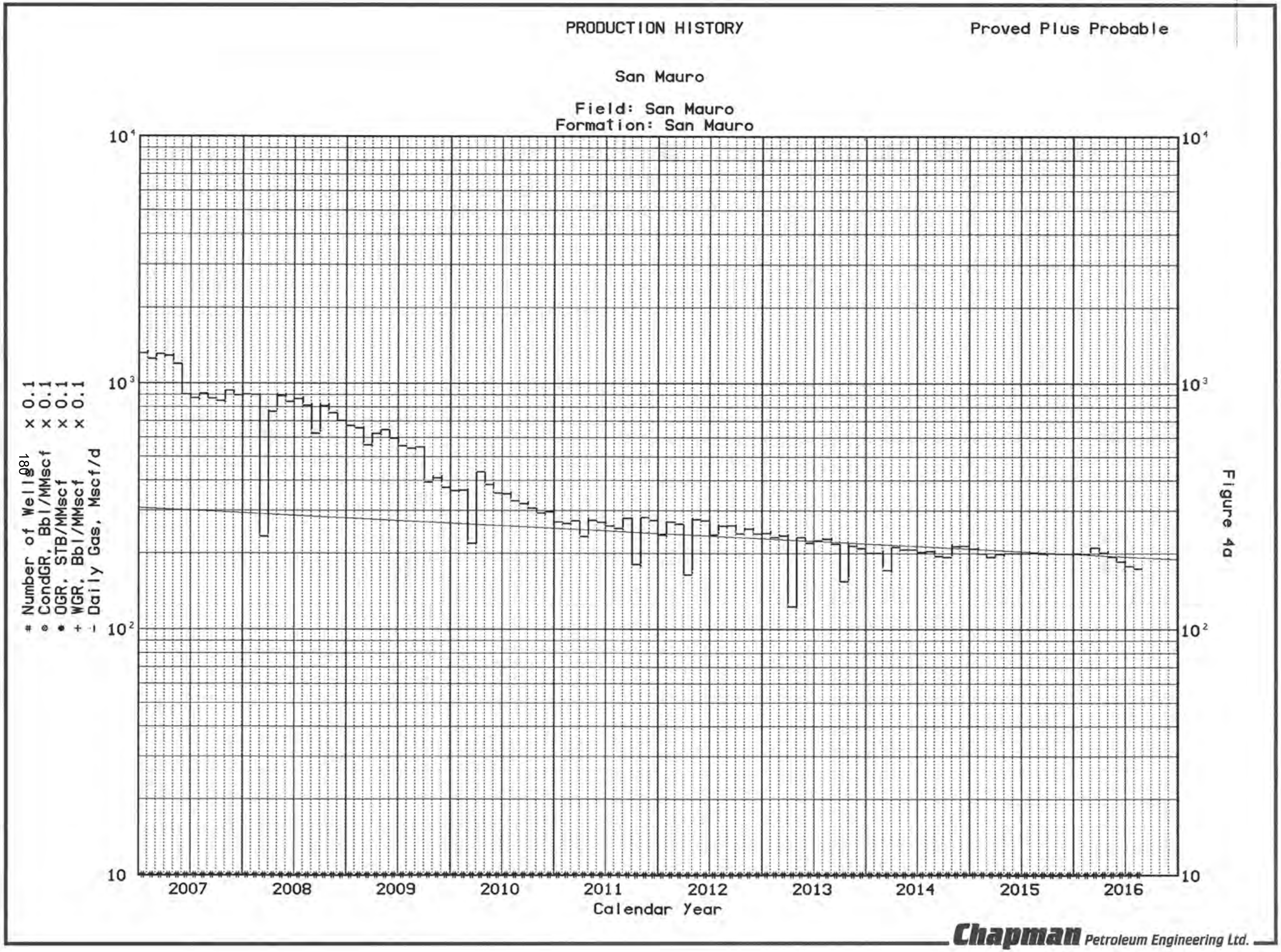


Figure 3b

Chapman Petroleum Engineering Ltd.


PRODUCTION HISTORY
Proved Plus Probable
San Mauro
Field: San Mauro
Formation: San Mauro
10^4
10^3
10^2
10
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Calendar Year
Figure 4a
Number of Wells x 0.1
⊙ CondGR, Bbl/MMscf x 0.1
● OGR, STB/MMscf x 0.1
+ WGR, Bbl/MMscf x 0.1
- Daily Gas, Mscf/d
Chapman Petroleum Engineering Ltd.

Proved Plus Probable

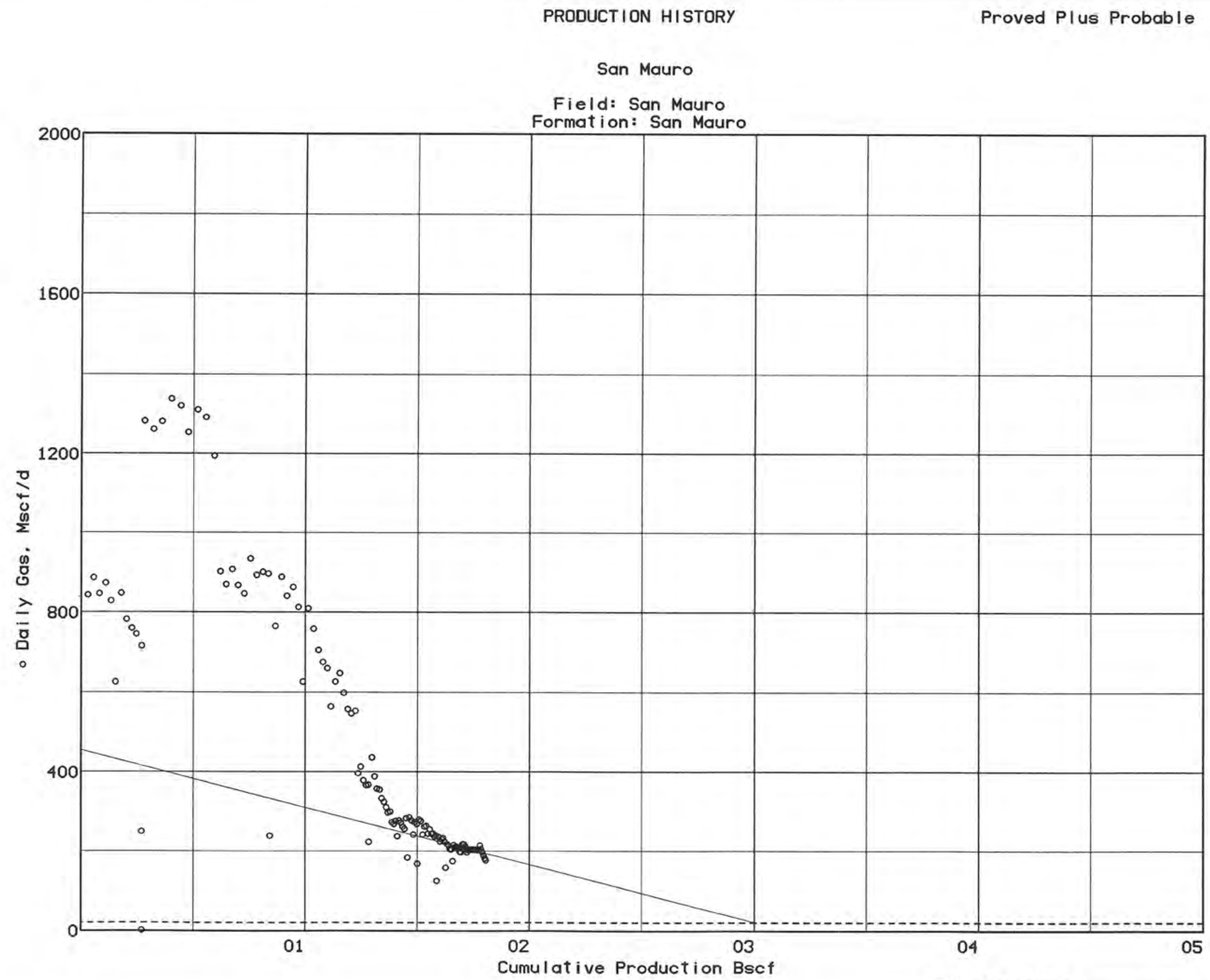


Figure 4b

Chapman Petroleum Engineering Ltd.

Table 3a

Summary of Anticipated Capital Expenditures

Development

September 1, 2016

Zenith Energy Ltd.

San Mauro Concession, Onshore Italy

Description	Date	Operation	Capital Interest %	Gross Capital M$	Net Capital M$

No anticipated capital expenditures.

Table 3b

Summary of Anticipated Capital Expenditures
Abandonment and Restoration

September 1, 2016

Zenith Energy Ltd.

San Mauro Concession, Onshore Italy

Description	Well Parameters	Capital Interest %	Gross Capital M$	Net Capital M$
San Mauro Concession	Abandon 1 gas well, reclaim the land	18.0000	57	10
	Total Abandonment and Restoration		**57**	**10**

Note: **M$ means thousands of dollars.**
The above capital values are expressed in terms of current dollar values without escalation.

Forecast Prices & Costs

Table 4
Summary of Company Reserves and Economics
Before Income Tax
September 1, 2016

Zenith Energy Ltd.

San Mauro Concession, Italy

	Net To Appraised Interest										
	Reserves						Cumulative Cash Flow (BIT) - MUS$				
	Light and Medium Oil MSTB		Sales Gas MMscf		NGL Mbbls			Discounted at:			
Description	Gross	Net	Gross	Net	Gross	Net	Undisc.	5%/year	10%/year	15%/year	20%/year
Proved Developed Producing											
Bastia-1	0	0	100	100	0	0	95	72	56	45	37
Total Proved Developed Producing	**0**	**0**	**100**	**100**	**0**	**0**	**95**	**72**	**56**	**45**	**37**
Probable											
Probable Developed Producing											
Bastia-1 Incr.	0	0	71	71	0	0	150	80	46	29	19
Total Probable Developed Producing	**0**	**0**	**71**	**71**	**0**	**0**	**150**	**80**	**46**	**29**	**19**
Total Proved Plus Probable	**0**	**0**	**171**	**171**	**0**	**0**	**245**	**152**	**102**	**74**	**56**

MUS$ means thousands of United States dollars.

Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

Columns may not add precisely due to accumulative rounding of values throughout the report.

Table 4a

EVALUATION OF: San Mauro Concession, Onshore Italy - Proved Developed Producing

ERGO V7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 29-SEP-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
RUN DATE: 29-SEP-2016 TIME: 16:49
FILE: GsmPP1.DAX

WELL/LOCATION - San Mauro
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 588 MMCF
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 76714 -$- (2034)
NOTE: ECONOMIC LIMIT OCCURS IN 2034

INTEREST

AVG WI 18.0000%

ROYALTIES/TAXES

STATE

Sales Gas MMCF

Year	# of Wells	Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net
2016	1	3.91	168.8	19	3	3
2017	1	4.17	160.4	55	10	10
2018	1	4.43	148.6	51	9	9
2019	1	4.77	137.6	47	8	8
2020	1	5.03	127.5	43	8	8
2021	1	5.38	118.1	40	7	7
2022	1	5.73	109.4	37	7	7
2023	1	6.08	101.3	34	6	6
2024	1	6.51	93.8	32	6	6
2025	1	6.94	86.9	30	5	5
2026	1	7.12	80.5	27	5	5
2027	1	7.29	74.5	25	5	5
2028	1	7.46	69.0	23	4	4
2029	1	7.64	63.9	22	4	4
2030	1	7.81	59.2	20	4	4
SUB				506	91	91
REM				52	9	9
TOT				558	100	100

= P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/MCF	FR After Roy&Oper -M$-	Net back $/MCF	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	14	0	14	0	0	0	.0	3	8	3.39	2	.51	0	0	0	2	2
2017	0	0	41	0	41	0	0	0	.0	10	24	3.51	6	.65	0	0	0	6	6
2018	0	0	40	0	40	0	0	0	.0	10	23	3.67	7	.76	0	0	0	7	6
2019	0	0	40	0	40	0	0	0	.0	11	22	3.84	8	.94	0	0	0	8	6
2020	0	0	39	0	39	0	0	0	.0	11	20	4.02	8	1.02	0	0	0	8	6
2021	0	0	39	0	39	0	0	0	.0	11	19	4.21	8	1.17	0	0	0	8	5
2022	0	0	38	0	38	0	0	0	.0	11	18	4.42	9	1.31	0	0	0	9	5
2023	0	0	38	0	38	0	0	0	.0	12	17	4.65	9	1.43	0	0	0	9	5
2024	0	0	37	0	37	0	0	0	.0	12	16	4.89	9	1.62	0	0	0	9	4
2025	0	0	37	0	37	0	0	0	.0	12	15	5.15	10	1.79	0	0	0	10	4
2026	0	0	35	0	35	0	0	0	.0	12	15	5.44	8	1.68	0	0	0	8	3
2027	0	0	33	0	33	0	0	0	.0	13	14	5.75	7	1.54	0	0	0	7	2
2028	0	0	32	0	32	0	0	0	.0	13	13	6.09	6	1.37	0	0	0	6	2
2029	0	0	30	0	30	0	0	0	.0	13	12	6.46	5	1.18	0	0	0	5	1
2030	0	0	28	0	28	0	0	0	.0	13	12	6.86	3	.95	0	0	0	3	1
SUB	0	0	521	0	521	0	0	0	.0	167	249		105		0	0	0	105	58
REM	77	0	75	0	75	0	0	0	.0	41	30		4		0	0	14	-10	-2
TOT	77	0	596	0	596	0	0	0	.0	208	280		108		0	0	14	95	56

NET PRESENT VALUE (-$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	108461	78208	65806	59166	53539	46600	37953
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	13809	6074	3780	2775	2049	1313	641
Future Net Revenue .	94652	72134	62026	56390	51490	45286	37311

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	18.0	18.0					
% of Future Revenue.			.0	81.8	18.2	.0	15.9

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/MCF)	.56
NPV @ 5.0% ($/MCF)	.72

Table 4b

EVALUATION OF: San Mauro Concession, Onshore Italy - Proved Plus Probable Developed Producin	ERGO v7.43 P2 ENERGY SOLUTIONS PAGE 1
	GLOBAL : 29-SEP-2016 6264
	EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
	RUN DATE: 29-SEP-2016 TIME: 16:49
	FILE: GsmRA1.DAX

WELL/LOCATION - San Mauro
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 999 MMCF
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 77 -M$- (2046)
NOTE: ECONOMIC LIMIT OCCURS IN 2046

INTEREST

AVG WI 18.0000%

ROYALTIES/TAXES

STATE

Sales Gas MMCF

Year	# of Wells	Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net
2016	1	3.91	169.7	19	3	3
2017	1	4.17	164.7	56	10	10
2018	1	4.43	157.5	54	10	10
2019	1	4.77	150.6	51	9	9
2020	1	5.03	144.0	49	9	9
2021	1	5.38	137.7	47	8	8
2022	1	5.73	131.6	45	8	8
2023	1	6.08	125.9	43	8	8
2024	1	6.51	120.3	41	7	7
2025	1	6.94	115.1	39	7	7
2026	1	7.12	110.0	37	7	7
2027	1	7.29	105.2	36	6	6
2028	1	7.46	100.6	34	6	6
2029	1	7.64	96.2	33	6	6
2030	1	7.81	92.0	31	6	6
SUB				615	111	111
REM				334	60	60
TOT				949	171	171

= P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/MCF	FR After Roy&Oper -M$-	Net back $/MCF	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	14	0	14	0	0	0	.0	3	8	3.39	2	.52	0	0	0	2	2
2017	0	0	42	0	42	0	0	0	.0	10	25	3.49	7	.68	0	0	0	7	6
2018	0	0	43	0	43	0	0	0	.0	10	24	3.60	8	.82	0	0	0	8	7
2019	0	0	44	0	44	0	0	0	.0	11	24	3.73	10	1.05	0	0	0	10	7
2020	0	0	44	0	44	0	0	0	.0	11	23	3.86	10	1.18	0	0	0	10	7
2021	0	0	45	0	45	0	0	0	.0	11	23	3.99	12	1.39	0	0	0	12	7
2022	0	0	46	0	46	0	0	0	.0	11	22	4.13	13	1.60	0	0	0	13	7
2023	0	0	47	0	47	0	0	0	.0	12	21	4.28	14	1.79	0	0	0	14	7
2024	0	0	48	0	48	0	0	0	.0	12	21	4.44	15	2.07	0	0	0	15	7
2025	0	0	49	0	49	0	0	0	.0	12	20	4.60	16	2.34	0	0	0	16	7
2026	0	0	48	0	48	0	0	0	.0	12	20	4.77	16	2.34	0	0	0	16	6
2027	0	0	47	0	47	0	0	0	.0	13	19	4.95	15	2.34	0	0	0	15	5
2028	0	0	46	0	46	0	0	0	.0	13	19	5.14	14	2.32	0	0	0	14	5
2029	0	0	45	0	45	0	0	0	.0	13	18	5.34	14	2.29	0	0	0	14	4
2030	0	0	44	0	44	0	0	0	.0	13	18	5.55	13	2.26	0	0	0	13	3
SUB	0	0	651	0	651	0	0	0	.0	167	306		178		0	0	0	178	89
REM	77	0	480	0	480	0	0	0	.0	203	196		81		0	0	14	67	13
TOT	77	0	1131	0	1131	0	0	0	.0	370	502		259		0	0	14	245	102

NET PRESENT VALUE (-M$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	259	155	120	103	89	74	56
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	14	3	2	1	1	0	0
Future Net Revenue .	245	152	119	102	89	74	56

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	18.0	18.0					
% of Future Revenue.			.0	77.1	22.9	.0	21.7

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/MCF)	.60
NPV @ 5.0% ($/MCF)	.89

TORRENTE CIGNO GAS CONCESSION

ONSHORE, ITALY

INDEX

TORRENTE CIGNO GAS CONCESSION
ONSHORE ITALY
DISCUSSION

Property Description

The Company owns 45% working interest in the Torrente Cigno gas concession covering approximately 38,163 acres, and located onshore Italy along the Adriatic coast. The Company owns a 100% working interest in an electrical generation facility which utilizes gas from wells in this concession. The partner's gas is purchased at the facility intake. This concession is scheduled to expire in 2019. An extension is expected to be granted to align with the Company's additional development plans.

A map showing the Torrente Cigno concession location is presented in Figure 1a, and a description of the ownership is presented in Table 1.

Geology

The regional geology of Italy as shown in Figure 2a places the company's properties in the on-land shallow depths of the Apenninic Foredeep basin.

The Apennines are the consequences of the subduction of three types of lithosphere with different characteristics, but pertaining to the same Adriatic plate. [1]

1. In the north central Apennines, thin continental lithosphere at the surface in the foreland, and probably thinner at depth, occurs
2. In the southern Apennines, thick continental lithosphere occurs in the foreland, whereas probably old oceanic lithosphere constitutes the slab at depth to the west (northern prologation of the Ionian Mesozoic basin
3. In the southern sector, offshore Calabria, old oceanic Ionian lithosphere occurs both in the foreland and at depth.

[1] 'An Introduction To The Italian Geology' – Carlo Doglioni and Giovanni Flores, 1997

The Torrente Cigno exploration play has gas resources from a subcropping sequence of carbonates beneath a significant unconformity below the base Pliocene, as represented in the Stratigraphic Column of Figure 2b and as seen in the structure of Figure 2c.

Reserves

Total gross proved developed producing conventional non-associated marketable gas reserves of 1,259 MMscf and 19 Mbbl of condensate have been estimated for the one producing gas well Masseria Vincelli 1. These estimates are based on volumetric analyses as presented in Table 2a.

Gross probable additional developed producing conventional non-associated marketable gas reserves of 1,439 MMscf and 22 Mbbl of condensate have been estimated for the same MV1 well based on a volumetric analysis assuming an improved drainage area as presented in Table 2a.

Probable undeveloped gas reserves of 13,413 MMscf and 202 Mbbl of condensate have been estimated for an offset horizontal well location (Masseria Vincelli 2) based on volumetric analysis based on reservoir parameters as shown in Table 2b. (This table reflects the reserves of the total accumulation.)

Production

The Masseria Vincelli 1 well is located in the southern part of Torrente Cigno concession. The MV1 well is producing from the top of the Apulian platform carbonates belonging to or oligo-Miocene transgressive deposits. The well came into production during the month of October 2002.

The well Masseria Vincelli 1 is currently producing at a fairly constant rate of 450 Mscf/d into the Company's electrical generation facility. This production rate is predicted to be constant for the next six years to maintain operation of a single 1.4 MWh unit before commencing a decline.

The offset probable horizontal well location Masseria Vincelli 2 is expected to be drilled in 2017 and produce at a rate of 1,000 Mscf/d which will maintain the operation of the other three 1.4 MWh units at the electrical generation facility for a number of years. Later in life, as the well declines, non utilized units will be taken off line.

Product Prices

A net effective gas price for 2016 of $1.45/Mscf has been established for this property based on the revenues generated from the electricity generation facility and correlated to the World Bank European gas price forecast. This price accounts for a deduction of $0.86/Mscf paid for the partner's 55% share of the gas.

Condensate is sold for $46.92/Bbl. Only the Company's share of condensate is considered in this report. The partner sells its share of condensate separately.

Capital Expenditures

Total capital expenditures of $3,300,000 ($1,500,000 net to the Company) have been estimated for the drilling, testing, completion, and tie-in of one new well, as presented in Table 3a.

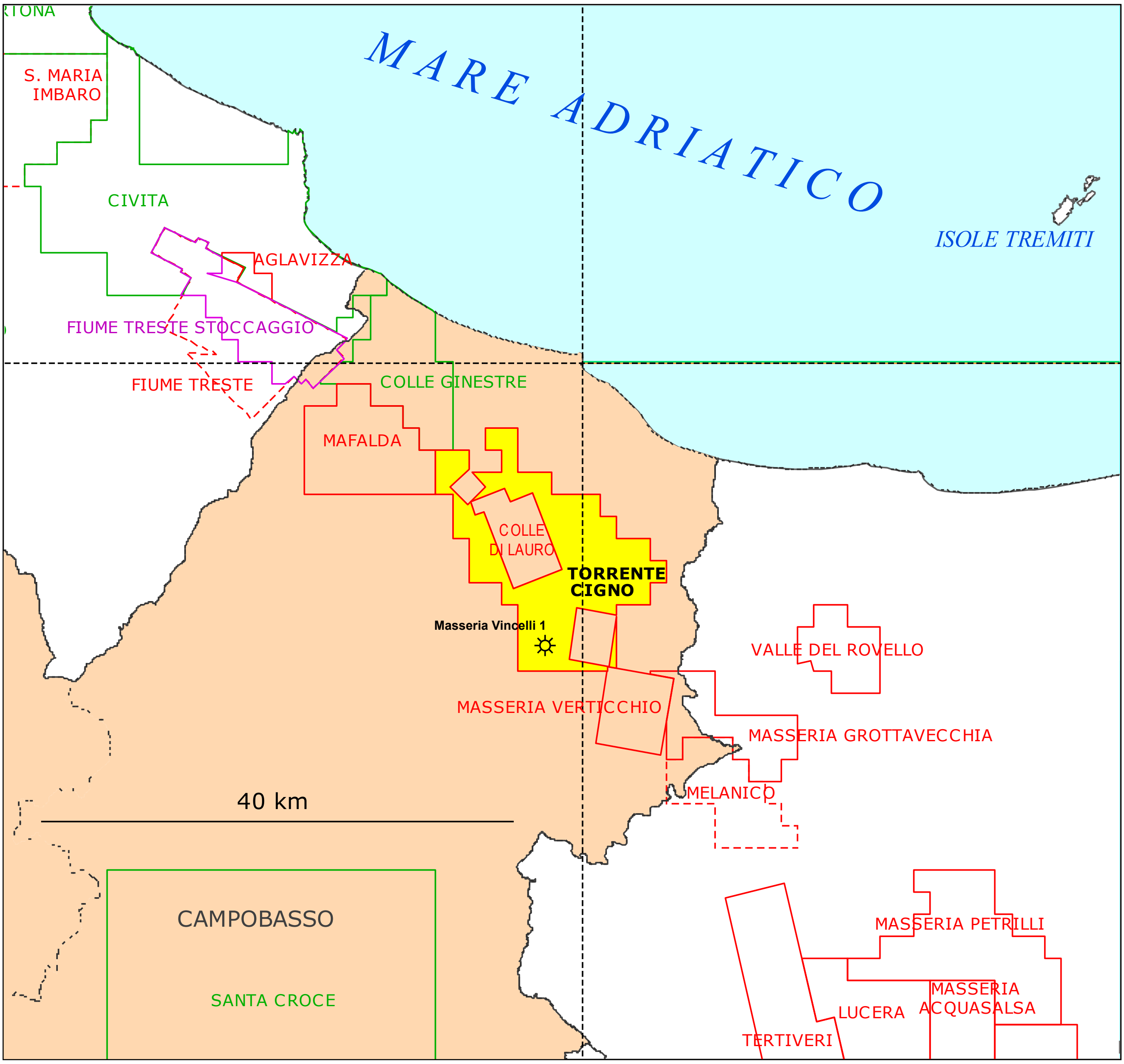
Total abandonment liabilities of $114,000 ($51,300 net to the Company) have been estimated based on a reasonable expectation for these types of wells. The abandonment and site reclamation costs are presented in Table 3b.

Operating Costs

Operating costs for the wells and facility combined have been estimated to be $4,700 per month, plus $0.36/Mscf net to the Company, based on revenue and expense statements provided by the Company. These costs account for the reimbursement of well and gas handling costs from the 55% WI partner and costs relating to condensate production and sales.

Economics

An economic summary is presented on Table 4 and the results of our economic analysis are presented on Tables 4a through 4d.



ZENITH ENERGY LTD.

TORRENTE CIGNO CONCESSION

MOLISE REGION, ITALY

LAND AND WELL MAP

SEP. 2016 JOB No. 6264 FIGURE No. 1

191

Chapman Petroleum Engineering Ltd.

Table 1

Schedule of Lands, Interests and Royalty Burdens
September 1, 2016

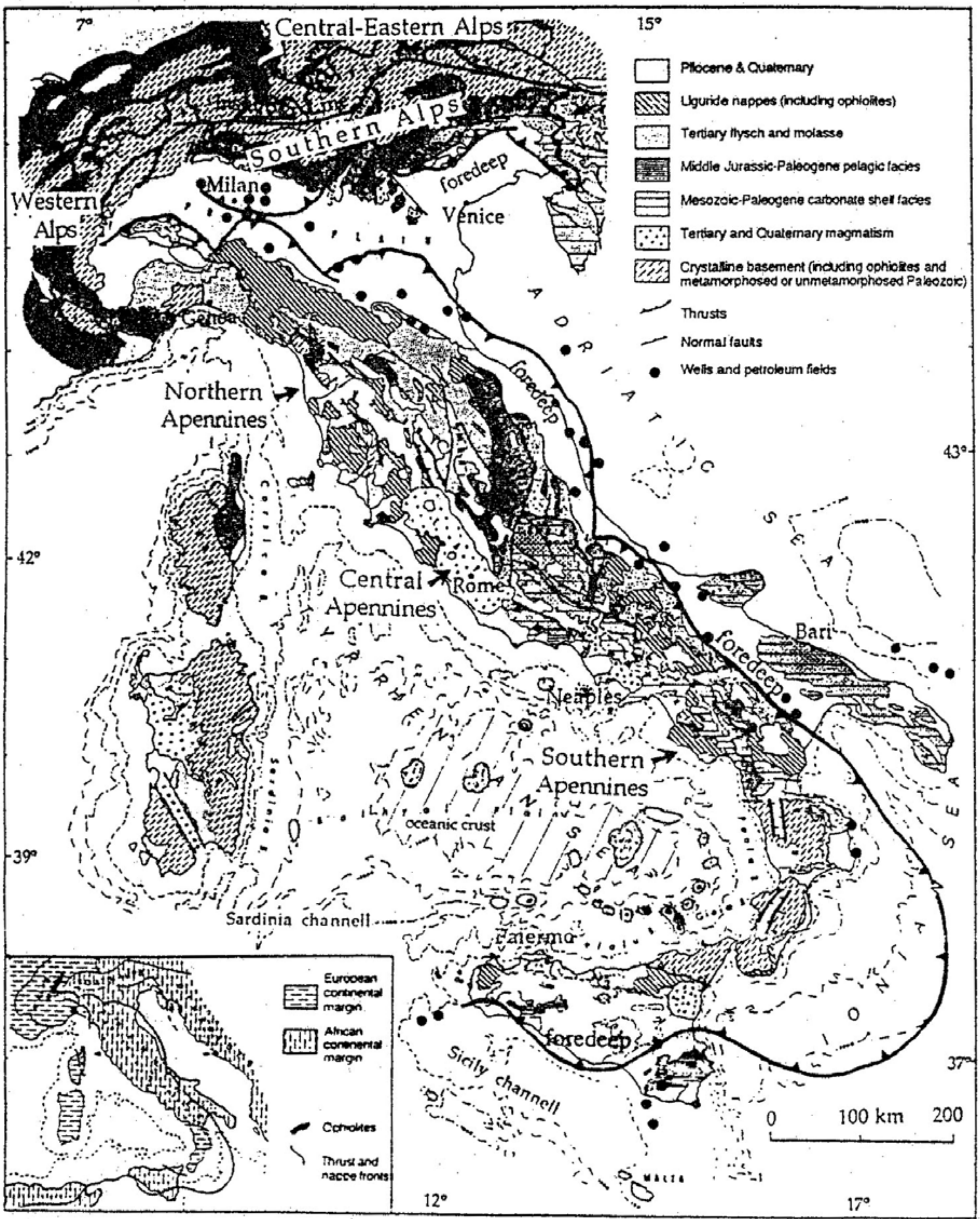
Zenith Energy Ltd.

Torrente Cigno Concession, Onshore Italy

Description	Rights Owned	Gross Acres	Appraised Interest: Working %	Appraised Interest: Royalty %	Royalty Burdens: Basic %	Royalty Burdens: Overriding %
Masseria Vincelli 1	[A]	38,163	45.0000	-	7.0000 [1]	-
Masseria Vincelli 2 (Location)						

General Notes : [1] If over 25 million cubic meters annually (882.9 MMCF)
[2] This gas is used for electrical generation from the Company's 100% owned facility and revenue from electricity sales is realized by the Company at 100%.

Rights Owned : [A] All P&NG.
This concession is scheduled to expire in 2019. An extension is expected to be granted to align with the Company's additional development plans.



Source: Doglioni and Flores, An Introduction to the Italian Geology, 1997

ZENITH ENERGY LTD.
ITALY **REGIONAL GEOLOGY**
SEP. 2016 **JOB No. 6264** **FIGURE No. 2a**

Chapman Petroleum Engineering Ltd.

System	Series	Stage	Age (Ma)	
Quaternary	Pleistocene	Gelasian	younger	
Neogene	Pliocene	Piacenzian	2.588–3.600	← GAS ZONE
		Zanclean	3.600–5.332	← GAS ZONE
	Miocene	Messinian	5.332–7.246	← GAS ZONE ZONE OF INTEREST
		Tortonian	7.246–11.608	
		Serravallian	11.608–13.65	
		Langhian	13.65–15.97	
		Burdigalian	15.97–20.43	
		Aquitanian	20.43–23.03	
Paleogene	Oligocene	Chattian	older	

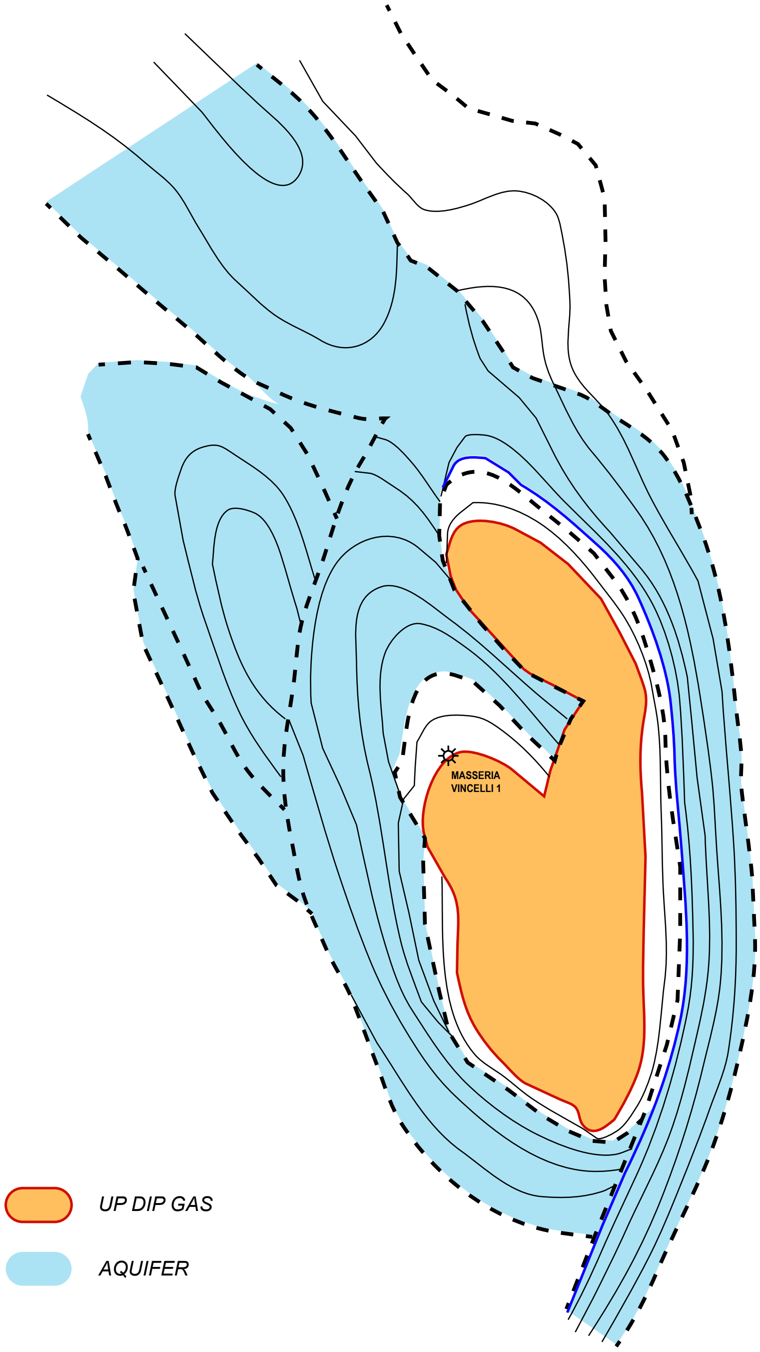
ZENITH ENERGY LTD.

ITALY

STRATIGRAPHIC CHART

SEP. 2016 **JOB No. 6264** **FIGURE No. 2b**

Chapman Petroleum Engineering Ltd.



ZENITH ENERGY LTD.

TORRENTE CIGNO
CONCESSION

MOLISE REGION, ITALY

MASSERIA VINCELLI STRUCTURE

SEP. 2016 | JOB No. 6264 | FIGURE No. 2c

Chapman Petroleum Engineering Ltd.

Table 2

Summary of Gross Reserves
September 1, 2016

Zenith Energy Ltd.

Torrente Cigno Concession, Onshore Italy

Description			Current or Initial Rate Mscf/d		Ultimate RGIP (MMscf)	Cumulative Production (MMscf)	Remaining RGIP (raw) (MMscf)	Remaining RGIP (sales) (MMscf)	Remaining NGLs (MBbls)	Reference
Proved Developed Producing										
Torrente Cigno Concession	Masseria Vincelli 1		450		3,100	1,746	1,354	1,259	19	Fig 3a & Table 2a
	Total Proved				**3,100**	**1,746**	**1,354**	**1,259**	**19**	
Probable Developed Producing										
Torrente Cigno Concession	Masseria Vincelli 1	(Incr.)			1,547	0	1,547	1,439	22	Fig 3a & Table 2a
Probable Undeveloped										
Torrente Cigno Concession	HZ Loc. Masseria Vincelli 2		1,000	Mar 17	14,423	0	14,423	13,413	202	Table 2b
	Total Probable				**15,970**	**0**	**15,970**	**14,852**	**224**	
	Total Proved Plus Probable				**19,070**	**1,746**	**17,324**	**16,111**	**243**	

Chapman Petroleum Engineering Ltd.

Table 2a

SUMMARY OF GROSS RESERVES AND RESERVOIR PARAMETERS
September 1, 2016

Torrente Cigno, Italy

	MV-1 Apullian Carbonates (1) Proved Developed Producing	MV-1 Apullian Carbonates (1) Proved Plus Probable
PRODUCT TYPE		
Non-Associated Gas		
RESERVOIR PARAMETERS		
Reservoir Pressure, psia	2,946	2,946
Reservoir Temperature, deg F	134	134
Average Porosity, %	15.0	15.0
Average Water Saturation, %	30.0	30.0
Compressibility Factor, Z	0.798	0.798
Petroleum Initially-in-Place, Mscf/ac.ft	1009.0	1008.5
Reservoir Loss, %	40.0	40.0
Surface Loss, %	7.0	7.0
RESERVES		
Net Pay, feet	32.0	32.0
Area, acres	160	240
Petroleum Initially-in-Place, MMscf	5,166	7,745
Reserves Initially-in-Place, MMscf	3,100	4,647
Cumulative Production, MMscf	1,746	1,746
Remaining Raw Reserves, MMscf	1,354	2,901
Remaining Marketable Reserves, MMscf	**1,259**	**2,698**
NGL's Recovery, bbl/MMscf	14	14
Remaining NGL's, bbls	18,956	40,614

Note: (1) Interval 2240.0 - 2255.0 m KB.

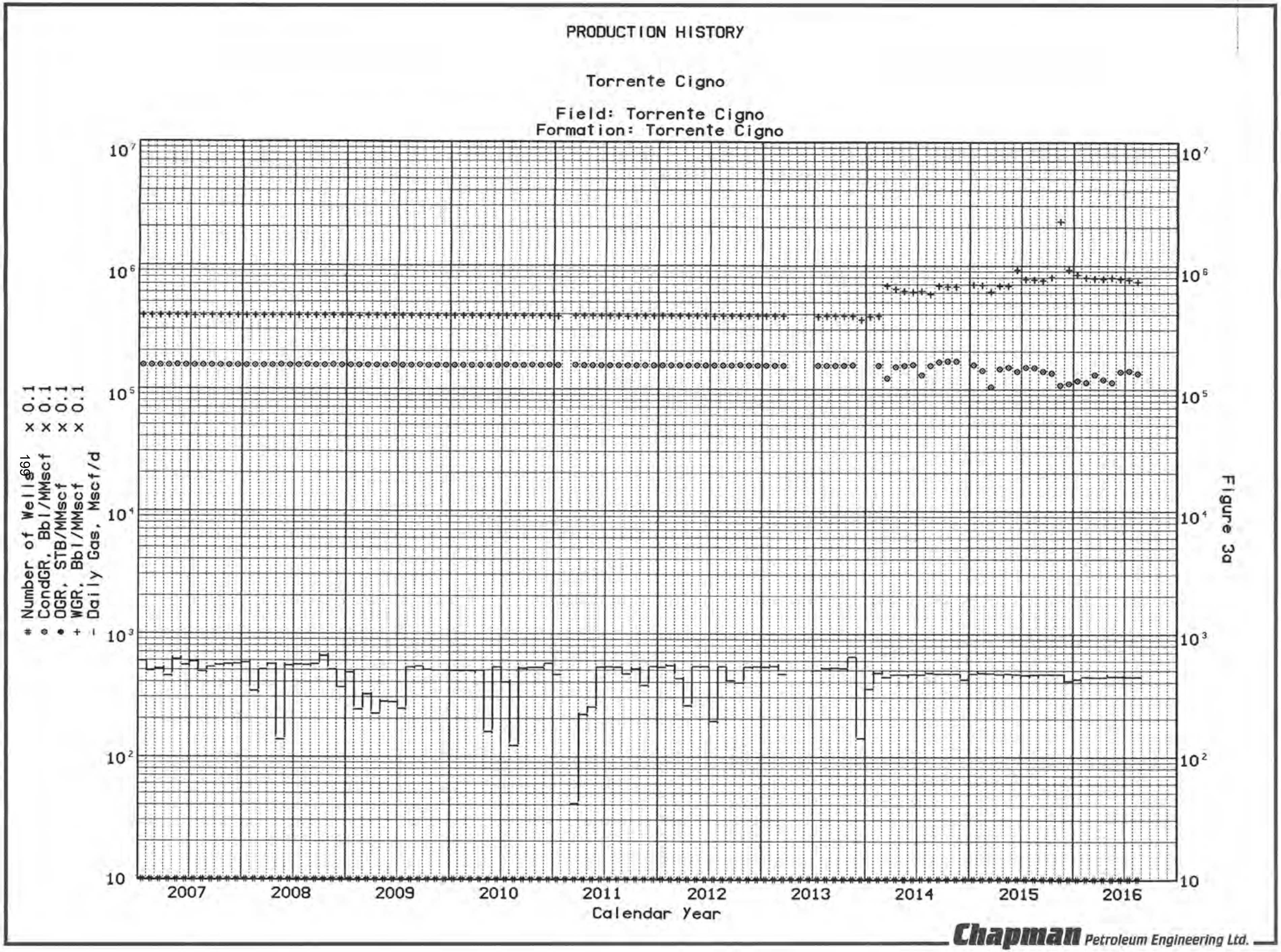
Table 2b

SUMMARY OF GROSS RESERVES AND RESERVOIR PARAMETERS
September 1, 2016

Torrente Cigno, Italy

	Total Proved plus Probable MV1 & MV2 Apullian Carbonate (1)
PRODUCT TYPE	
Non-Associated Gas	
RESERVOIR PARAMETERS	
Reservoir Pressure, psia	2,946
Reservoir Temperature, deg F	134
Average Porosity, %	15.0
Average Water Saturation, %	30.0
Compressibility Factor, Z	0.798
Petroleum Initially-in-Place, Mscf/ac.ft	1009.0
Reservoir Loss, %	40.0
Surface Loss, %	7.0
RESERVES	
Net Pay, feet	70.0
Area, acres	450
Petroleum Initially-in-Place, MMscf	31,784
Reserves Initially-in-Place, MMscf	19,070
Cumulative Production, MMscf	1,746
Remaining Raw Reserves, MMscf	17,324
Remaining Marketable Reserves, MMscf	**16,111**
NGL's Recovery, bbl/MMscf	14
Remaining NGL's, bbls	242,536

Note: (1) Interval 2240.0 - 2255.0 m KB.



PRODUCTION HISTORY
Torrente Cigno
Field: Torrente Cigno
Formation: Torrente Cigno
10⁷
10⁶
10⁵
10⁴
10³
10²
10
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Calendar Year
\# Number of Wells × 0.1
⊙ CondGR, Bbl/MMscf × 0.1
• OGR, STB/MMscf × 0.1
\+ WGR, Bbl/MMscf × 0.1
\- Daily Gas, Mscf/d
Figure 3a
Chapman Petroleum Engineering Ltd.

Table 3a

Summary of Anticipated Capital Expenditures
Development
September 1, 2016
Zenith Energy Ltd.

Torrente Cigno Concession, Onshore Italy

Description	Date	Operation	Capital Interest %	Gross Capital M$	Net Capital M$
Probable					
Loc. Masseria Vincelli 2	March -17	Horizontal drilling, testing, completion, and tie-in	45.0000	3,333	1,500
		Total Probable		**3,333**	**1,500**

Note: **M$ means thousands of dollars.**
The above capital values are expressed in terms of current dollar values without escalation.
Unless details are known, drilling costs have been split 70% Intangible and 30% Tangiible for tax purposes

Table 3b

Summary of Anticipated Capital Expenditures
Abandonment and Restoration

September 1, 2016

Zenith Energy Ltd.

Torrente Cigno Concession, Onshore Italy

Description	Well Parameters	Capital Interest %	Gross Capital M$	Net Capital M$
Torrente Cigno Field	Abandon 1 gas well MV1, reclaim the land	45.0000	57	26
Torrente Cigno Field	Abandon 1 gas well MV2, reclaim the land	45.0000	57	26
	Total Abandonment and Restoration		**114**	**51**

Note: **M$ means thousands of dollars.**
The above capital values are expressed in terms of current dollar values without escalation.

Forecast Prices & Costs

Table 4
Summary of Company Reserves and Economics
Before Income Tax

September 1, 2016

Zenith Energy Ltd.

Torrente Cigno Concession, Italy

		Net To Appraised Interest										
		Reserves						Cumulative Cash Flow (BIT) - MUS$				
		Light and Medium Oil MSTB		Sales Gas MMscf		NGL Mbbls			Discounted at:			
Description		Gross	Net	Gross	Net	Gross	Net	Undisc.	5%/year	10%/year	15%/year	20%/year
Proved Developed Producing												
Masseria Vincelli-1	Apulian Carbonate	0	0	1,259	1,259	9	9	1,842	1,487	1,228	1,036	889
Total Proved Developed Producing		**0**	**0**	**1,259**	**1,259**	**9**	**9**	**1,842**	**1,487**	**1,228**	**1,036**	**889**
Probable												
Probable Developed Producing												
Masseria Vincelli-1	Apulian Carbonate Incr.	0	0	1,439	1,439	10	10	3,173	1,677	948	565	353
Total Probable Developed Producing		**0**	**0**	**1,439**	**1,439**	**10**	**10**	**3,173**	**1,677**	**948**	**565**	**353**
Probable Undeveloped												
HZ Loc. Masseria Vincelli-2	Apulian Carbonate	0	0	13,413	13,413	91	91	33,642	11,994	5,785	3,284	2,027
Total Probable Undeveloped		**0**	**0**	**13,413**	**13,413**	**91**	**91**	**33,642**	**11,994**	**5,785**	**3,284**	**2,027**
Total Probable		**0**	**0**	**14,852**	**14,852**	**101**	**101**	**36,815**	**13,671**	**6,733**	**3,849**	**2,380**
Total Proved Plus Probable		**0**	**0**	**16,111**	**16,111**	**109**	**109**	**38,657**	**15,158**	**7,961**	**4,885**	**3,269**

MUS$ means thousands of United States dollars.

Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties owned by others.

Columns may not add precisely due to accumulative rounding of values throughout the report.

Table 4a

EVALUATION OF: Torrente Cigno Concession - Proved Developed Producing

ERGO v7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 29-SEP-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
RUN DATE: 3-OCT-2016 TIME: 14:35
FILE: GtcPP1.DAX

WELL/LOCATION - Masseria Vincelli-1
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 1354 MMCF
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 32 -M$- (2027)

INTEREST

AVG WI 100.0000%

ROYALTIES/TAXES

STATE

Year	# of Wells	Sales Gas MMCF Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net	Condensate BBL Price $/BBL	Co. Share Gross
2016	1	1.45	418.5	51	51	51	46.92	346
2017	1	1.55	418.5	153	153	153	51.92	1035
2018	1	1.65	418.5	153	153	153	61.92	1035
2019	1	1.78	418.5	153	153	153	66.92	1035
2020	1	1.87	418.5	153	153	153	71.92	1035
2021	1	2.00	418.5	153	153	153	74.92	1035
2022	1	2.13	370.6	135	135	135	77.92	916
2023	1	2.26	289.1	106	106	106	78.92	715
2024	1	2.42	225.6	82	82	82	80.56	558
2025	1	2.58	176.0	64	64	64	82.23	435
2026	1	2.65	137.3	50	50	50	83.94	339
2027	1	2.71	19.0	7	7	7	85.68	47
SUB				1259	1259	1259		8530
REM				0	0	0		0
TOT				1259	1259	1259		8530

= P/T = COMPANY SHARE FUTURE NET REVENUE

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/MCF	FR After Roy&Oper -M$-	Net back $/MCF	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	74	16	90	0	0	0	.0	19	20	.76	52	1.02	0	0	0	52	51
2017	0	0	237	54	291	0	0	0	.0	58	60	.77	173	1.13	0	0	0	173	160
2018	0	0	252	64	316	0	0	0	.0	59	62	.79	196	1.28	0	0	0	196	164
2019	0	0	271	69	341	0	0	0	.0	60	63	.80	218	1.43	0	0	0	218	166
2020	0	0	286	74	361	0	0	0	.0	61	64	.82	236	1.54	0	0	0	236	163
2021	0	0	306	78	384	0	0	0	.0	62	65	.84	256	1.68	0	0	0	256	161
2022	0	0	288	71	360	0	0	0	.0	64	59	.91	237	1.75	0	0	0	237	136
2023	0	0	239	56	295	0	0	0	.0	65	47	1.06	183	1.74	0	0	0	183	96
2024	0	0	200	45	244	0	0	0	.0	66	37	1.26	141	1.71	0	0	0	141	67
2025	0	0	166	36	202	0	0	0	.0	67	30	1.51	105	1.63	0	0	0	105	45
2026	0	0	133	28	161	0	0	0	.0	69	24	1.84	69	1.37	0	0	0	69	27
2027	32	0	19	4	23	0	0	0	.0	11	3	2.10	8	1.19	0	0	32	-24	-8
SUB	32	0	2471	596	3067	0	0	0	.0	660	534		1873		0	0	32	1842	1228
REM	0	0	0	0	0	0	0	0	.0	0	0		0		0	0	0	0	0
TOT	32	0	2471	596	3067	0	0	0	.0	660	534		1873		0	0	32	1842	1228

NET PRESENT VALUE (-M$-)

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	1874	1505	1336	1240	1154	1043	894
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	32	19	14	11	9	7	4
Future Net Revenue .	1842	1487	1322	1228	1145	1036	889

COMPANY SHARE

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			.0	38.9	61.1	.0	60.0

PROFITABILITY

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/MCF)	.98
NPV @ 5.0% ($/MCF)	1.18

Chapman Petroleum Engineering Ltd.

Table 4b

EVALUATION OF: Torrente Cigno Concession, Italy
============= Total Proved Plus Probable cons.

ERGO v7.43 P2 ENERGY SOLUTIONS TOTAL
GLOBAL : 03-OCT-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016
RUN DATE: 3-OCT-2016 TIME: 15:06
FILE:

EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TOTAL CAPITAL COSTS - 1530 -M$-
TOTAL ABANDONMENT - 69 -M$-

Year	# of Wells	Sales Gas MMCF Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net	Condensate BBL Price $/BBL	Co. Share Gross
2016	1	1.45	418.5	51	51	51	46.92	346
2017	2	1.55	1198.2	437	437	437	51.92	2963
2018	2	1.65	1348.5	492	492	492	61.92	3334
2019	2	1.78	1348.5	492	492	492	66.92	3334
2020	2	1.87	1348.5	492	492	492	71.92	3334
2021	2	2.00	1348.5	492	492	492	74.92	3334
2022	2	2.13	1348.5	492	492	492	77.92	3334
2023	2	2.26	1348.5	492	492	492	78.92	3334
2024	2	2.42	1348.5	492	492	492	80.56	3334
2025	2	2.58	1348.5	492	492	492	82.23	3334
2026	2	2.65	1330.9	486	486	486	83.94	3291
2027	2	2.71	1297.6	474	474	474	85.68	3208
2028	2	2.78	1267.0	462	462	462	87.45	3133
2029	2	2.84	1239.0	452	452	452	89.27	3064
2030	2	2.91	1213.4	443	443	443	91.11	3000
SUB				6743	6743	6743		45678
REM				9368	9368	9368		63463
TOT				16111	16111	16111		109141

= P/T = ========== COMPANY SHARE FUTURE NET REVENUE ==========

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties Crown -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/BOE	FR After Roy&Oper -M$-	Net back $/BOE	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	74	16	90	0	0	0	.0	19	20	4.36	52	5.85	0	0	0	52	51
2017	1530	0	678	154	832	0	0	0	.0	96	173	3.54	563	7.43	0	1530	0	-966	-893
2018	0	0	811	206	1018	0	0	0	.0	105	198	3.56	714	8.36	0	0	0	714	599
2019	0	0	875	223	1098	0	0	0	.0	108	202	3.63	788	9.23	0	0	0	788	601
2020	0	0	922	240	1162	0	0	0	.0	110	206	3.70	846	9.91	0	0	0	846	587
2021	0	0	986	250	1236	0	0	0	.0	112	210	3.78	913	10.70	0	0	0	913	576
2022	0	0	1050	260	1309	0	0	0	.0	114	215	3.85	981	11.49	0	0	0	981	562
2023	0	0	1113	263	1376	0	0	0	.0	116	219	3.93	1041	12.19	0	0	0	1041	543
2024	0	0	1193	269	1461	0	0	0	.0	119	223	4.01	1119	13.11	0	0	0	1119	530
2025	0	0	1272	274	1546	0	0	0	.0	121	228	4.09	1198	14.03	0	0	0	1198	516
2026	0	0	1287	276	1563	0	0	0	.0	124	229	4.19	1210	14.37	0	0	0	1210	474
2027	0	0	1285	275	1560	0	0	0	.0	126	228	4.31	1206	14.68	0	0	0	1206	430
2028	0	0	1285	274	1559	0	0	0	.0	129	227	4.43	1203	15.00	0	0	0	1203	390
2029	0	0	1286	273	1559	0	0	0	.0	131	226	4.56	1202	15.32	0	0	0	1202	354
2030	0	0	1288	273	1561	0	0	0	.0	134	226	4.69	1201	15.64	0	0	0	1201	321
SUB	1530	0	15406	3527	18932	0	0	0	.0	1664	3031		14238		0	1530	0	12708	5642
REM	69	0	27848	5902	33750	0	0	0	.0	2851	4881		26018		0	0	69	25949	2319
TOT	1599	0	43253	9429	52682	0	0	0	.0	4515	7911		40256		0	1530	69	38657	7961

========== NET PRESENT VALUE (-M$-) ==========

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	40256	16641	11492	9378	7854	6248	4584
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	1530	1469	1435	1413	1392	1361	1314
Abandonment Costs ..	69	14	6	4	2	1	0
Future Net Revenue .	38657	15158	10051	7961	6459	4885	3269

========== COMPANY SHARE ==========

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			.0	23.6	76.4	2.9	73.4

========== PROFITABILITY ==========

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	89.0
Profit Index (undisc.)	24.2
(disc. @ 10.0%) .	5.6
(disc. @ 5.0%) .	10.2
First Payout (years)	.3
Total Payout (years)	2.7
Cost of Finding ($/BOE)	.57
NPV @ 10.0% ($/BOE)	2.85
NPV @ 5.0% ($/BOE)	5.42

Table 6c

EVALUATION OF: Torrente Cigno Concession - Proved Plus Probable Developed Producing

ERGO v7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 29-SEP-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-SEP-2016
RUN DATE: 3-OCT-2016 TIME: 14:35
FILE: GtcRA1.DAX

WELL/LOCATION - Masseria Vincelli-1
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 2901 MMCF
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL

TOTAL ABANDONMENT - 35 -M$- (2040)

INTEREST

AVG WI 100.0000%

ROYALTIES/TAXES

STATE

		Sales Gas MMCF					Condensate BBL	
			Pool		Company Share			Co.
Year	# of Wells	Price $/MCF	MCF/D	Vol	Gross	Net	Price $/BBL	Share Gross
2016	1	1.45	418.5	51	51	51	46.92	346
2017	1	1.55	418.5	153	153	153	51.92	1035
2018	1	1.65	418.5	153	153	153	61.92	1035
2019	1	1.78	418.5	153	153	153	66.92	1035
2020	1	1.87	418.5	153	153	153	71.92	1035
2021	1	2.00	418.5	153	153	153	74.92	1035
2022	1	2.13	418.5	153	153	153	77.92	1035
2023	1	2.26	418.5	153	153	153	78.92	1035
2024	1	2.42	418.5	153	153	153	80.56	1035
2025	1	2.58	418.5	153	153	153	82.23	1035
2026	1	2.65	400.9	146	146	146	83.94	991
2027	1	2.71	367.6	134	134	134	85.68	909
2028	1	2.78	337.0	123	123	123	87.45	833
2029	1	2.84	309.0	113	113	113	89.27	764
2030	1	2.91	283.4	103	103	103	91.11	701
SUB				2046	2046	2046		13857
REM				652	652	652		4419
TOT				2698	2698	2698		18276

= P/T = ============ COMPANY SHARE FUTURE NET REVENUE ============

	Capital &Aband	Future Revenue (FR)				Royalties				Operating Costs					Proc&			Future Net Rev	
Year	Costs -M$-	Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	State -M$-	Other -M$-	Mineral -M$-	-%-	Fixed -M$-	Variable -M$-	$/MCF	FR After Roy&Oper -M$-	Net back $/MCF	Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Undisc -M$-	10.0% -M$-
2016	0	0	74	16	90	0	0	0	.0	19	20	.76	52	1.02	0	0	0	52	51
2017	0	0	237	54	291	0	0	0	.0	58	60	.77	173	1.13	0	0	0	173	160
2018	0	0	252	64	316	0	0	0	.0	59	62	.79	196	1.28	0	0	0	196	164
2019	0	0	271	69	341	0	0	0	.0	60	63	.80	218	1.43	0	0	0	218	166
2020	0	0	286	74	361	0	0	0	.0	61	64	.82	236	1.54	0	0	0	236	163
2021	0	0	306	78	384	0	0	0	.0	62	65	.84	256	1.68	0	0	0	256	161
2022	0	0	326	81	406	0	0	0	.0	64	67	.85	276	1.81	0	0	0	276	158
2023	0	0	345	82	427	0	0	0	.0	65	68	.87	294	1.93	0	0	0	294	153
2024	0	0	370	83	454	0	0	0	.0	66	69	.89	318	2.08	0	0	0	318	151
2025	0	0	395	85	480	0	0	0	.0	67	71	.90	342	2.24	0	0	0	342	147
2026	0	0	388	83	471	0	0	0	.0	69	69	.94	333	2.28	0	0	0	333	130
2027	0	0	364	78	442	0	0	0	.0	70	65	1.00	307	2.29	0	0	0	307	109
2028	0	0	342	73	415	0	0	0	.0	72	60	1.07	283	2.30	0	0	0	283	92
2029	0	0	321	68	389	0	0	0	.0	73	56	1.15	259	2.30	0	0	0	259	76
2030	0	0	301	64	365	0	0	0	.0	74	53	1.23	237	2.29	0	0	0	237	63
SUB	0	0	4578	1052	5630	0	0	0	.0	938	911		3781		0	0	0	3781	1948
REM	35	0	1939	411	2350	0	0	0	.0	742	340		1269		0	0	35	1234	228
TOT	35	0	6517	1463	7980	0	0	0	.0	1679	1251		5049		0	0	35	5015	2176

============ NET PRESENT VALUE (-M$-) ============

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	5049	3175	2510	2179	1913	1602	1243
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	0	0	0	0	0	0	0
Abandonment Costs ..	35	11	6	4	2	1	0
Future Net Revenue .	5015	3164	2504	2176	1911	1601	1242

============ COMPANY SHARE ============

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			.0	36.7	63.3	.0	62.8

============ PROFITABILITY ============

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	n/a
Profit Index (undisc.)	n/a
(disc. @ 10.0%) .	n/a
(disc. @ 5.0%) .	n/a
First Payout (years)	n/a
Total Payout (years)	n/a
Cost of Finding ($/BOE)	n/a
NPV @ 10.0% ($/MCF)	.81
NPV @ 5.0% ($/MCF)	1.17

205

Chapman Petroleum Engineering Ltd.

Table 4d

EVALUATION OF: Torrente Cigno Concession - Probable Undeveloped

ERGO v7.43 P2 ENERGY SOLUTIONS PAGE 1
GLOBAL : 03-OCT-2016 6264
EFF:01-SEP-2016 DISC:01-SEP-2016 PROD:01-MAR-2017
RUN DATE: 3-OCT-2016 TIME: 15:06
FILE: GtcRE2.DAX

WELL/LOCATION - HZ Loc. Masseria Vincelli-2 (Apullian Carbonate)
EVALUATED BY -
COMPANY EVALUATED - Zenith Energy Ltd
APPRAISAL FOR -
PROJECT - FORECAST PRICES & COSTS

TRACT FACTOR - 100.0000 %
ULT POOL RESERVES - 14423 MMCF
PRODUCTION TO DATE - N/A
DECLINE INDICATOR - EXPONENTIAL
TOTAL CAPITAL COSTS - 1530 -M$-
TOTAL ABANDONMENT - 35 -M$- (2065)

INTEREST

AVG WI 100.0000%

ROYALTIES/TAXES

STATE

Year	# of Wells	Sales Gas MMCF Price $/MCF	Pool MCF/D	Pool Vol	Company Share Gross	Company Share Net	Condensate BBL Price $/BBL	Co. Share Gross
2016	0	1.45	.0	0	0	0	46.92	0
2017	1	1.55	930.0	285	285	285	51.92	1928
2018	1	1.65	930.0	339	339	339	61.92	2300
2019	1	1.78	930.0	339	339	339	66.92	2300
2020	1	1.87	930.0	339	339	339	71.92	2300
2021	1	2.00	930.0	339	339	339	74.92	2300
2022	1	2.13	930.0	339	339	339	77.92	2300
2023	1	2.26	930.0	339	339	339	78.92	2300
2024	1	2.42	930.0	339	339	339	80.56	2300
2025	1	2.58	930.0	339	339	339	82.23	2300
2026	1	2.65	930.0	339	339	339	83.94	2300
2027	1	2.71	930.0	339	339	339	85.68	2300
2028	1	2.78	930.0	339	339	339	87.45	2300
2029	1	2.84	930.0	339	339	339	89.27	2300
2030	1	2.91	930.0	339	339	339	91.11	2300
SUB				4697	4697	4697		31821
REM				8716	8716	8716		59044
TOT				13413	13413	13413		90865

= P/T = ===== COMPANY SHARE FUTURE NET REVENUE =====

Year	Capital &Aband Costs -M$-	Future Revenue (FR) Oil -M$-	SaleGas -M$-	Products -M$-	Total -M$-	Royalties State -M$-	Other -M$-	Mineral -M$-	-%-	Operating Costs Fixed -M$-	Variable -M$-	$/MCF	FR After Roy&Oper -M$-	Net back $/MCF	Proc& Other Income -M$-	Cap'l Costs -M$-	Aband Costs -M$-	Future Net Rev Undisc -M$-	10.0% -M$-
2016	0	0	0	0	0	0	0	0	.0	0	0	.00	0	.00	0	0	0	0	0
2017	1530	0	441	100	541	0	0	0	.0	38	112	.53	391	1.37	0	1530	0	-1139	-1052
2018	0	0	559	142	702	0	0	0	.0	47	137	.54	518	1.53	0	0	0	518	435
2019	0	0	603	154	757	0	0	0	.0	48	139	.55	570	1.68	0	0	0	570	435
2020	0	0	636	165	802	0	0	0	.0	49	142	.56	611	1.80	0	0	0	611	424
2021	0	0	680	172	852	0	0	0	.0	50	145	.57	658	1.94	0	0	0	658	415
2022	0	0	724	179	903	0	0	0	.0	51	148	.59	704	2.08	0	0	0	704	404
2023	0	0	768	181	949	0	0	0	.0	52	151	.60	747	2.20	0	0	0	747	389
2024	0	0	823	185	1008	0	0	0	.0	53	154	.61	801	2.36	0	0	0	801	380
2025	0	0	877	189	1066	0	0	0	.0	54	157	.62	856	2.52	0	0	0	856	369
2026	0	0	899	193	1092	0	0	0	.0	55	160	.63	877	2.58	0	0	0	877	344
2027	0	0	921	197	1118	0	0	0	.0	56	163	.65	899	2.65	0	0	0	899	320
2028	0	0	943	201	1144	0	0	0	.0	57	167	.66	921	2.71	0	0	0	921	298
2029	0	0	965	205	1170	0	0	0	.0	58	170	.67	942	2.78	0	0	0	942	277
2030	0	0	987	210	1197	0	0	0	.0	59	173	.69	964	2.84	0	0	0	964	258
SUB	1530	0	10828	2475	13303	0	0	0	.0	726	2119		10458		0	1530	0	8928	3695
REM	35	0	25908	5491	31399	0	0	0	.0	2109	4541		24749		0	0	35	24715	2090
TOT	1564	0	36736	7966	44702	0	0	0	.0	2835	6660		35207		0	1530	35	33642	5785

===== NET PRESENT VALUE (-M$-) =====

Discount Rate	.0%	5.0%	8.0%	10.0%	12.0%	15.0%	20.0%
FR After Roy & Oper.	35207	13466	8982	7198	5940	4645	3341
Proc & Other Income.	0	0	0	0	0	0	0
Capital Costs	1530	1469	1435	1413	1392	1361	1314
Abandonment Costs ..	35	3	1	0	0	0	0
Future Net Revenue .	33642	11994	7546	5785	4548	3284	2027

===== COMPANY SHARE =====

	1st Year	Average	Royalties	Oper Costs	FR After Roy&Oper	Capital Costs	Future NetRev
% Interest	100.0	100.0					
% of Future Revenue.			.0	21.2	78.8	3.4	75.3

===== PROFITABILITY =====

COMPANY SHARE BASIS	Before Tax
Rate of Return (%)	53.0
Profit Index (undisc.)	21.5
(disc. @ 10.0%) .	4.1
(disc. @ 5.0%) .	8.1
First Payout (years)	3.4
Total Payout (years)	3.5
Cost of Finding ($/BOE)	.67
NPV @ 10.0% ($/MCF)	.43
NPV @ 5.0% ($/MCF)	.89

GLOSSARY OF TERMS
(Abbreviations & Definitions)

General

BIT	-	Before Income Tax
AIT	-	After Income Tax
M$	-	Thousands of Dollars
Effective Date	-	The date for which the Present Value of the future cash flows and reserve categories are established
$US	-	United States Dollars
WTI	-	West Texas Intermediate – the common reference for crude oil used for oil price comparisons
ARTC	-	Alberta Royalty Tax Credit
GRP	-	Gas Reference Price

Interests and Royalties

BPO	-	Before Payout
APO	-	After Payout
APPO	-	After Project Payout
Payout	-	The point at which a participant's original capital investment is recovered from its net revenue
GORR	-	Gross Overriding Royalty – percentage of revenue on gross revenue earned (can be an interest or a burden)
NC	-	New Crown – crown royalty on petroleum and natural gas discovered after April 30, 1974
SS 1/150 (5%-15%) Oil	-	Sliding Scale Royalty – a varying gross overriding royalty based on monthly production. Percentage is calculated as 1-150th of monthly production with a minimum percentage of 5% and a maximum of 15%
FH	-	Freehold Royalty
P&NG	-	Petroleum and Natural Gas
Twp	-	Township
Rge	-	Range
Sec	-	Section

Technical Data

psia	-	Pounds per square inch absolute
MSTB	-	Thousands of Stock Tank Barrels of oil (oil volume at 60 F and 14.65 psia)
MMscf	-	Millions of standard cubic feet of gas (gas volume at 60 F and 14.65 psia)
Bbls	-	Barrels
Mbbls	-	Thousands of barrels
MMBTU	-	Millions of British Thermal Units – heating value of natural gas
STB/d	-	Stock Tank Barrels of oil per day – oil production rate
Mscf/d	-	Thousands of standard cubic feet of gas per day – gas production rate
GOR (scf/STB)	-	Gas-Oil Ratio (standard cubic feet of solution gas per stock tank barrel of oil)
mKB	-	Metres Kelly Bushing – depth of well in relation to the Kelly Bushing which is located on the floor of the drilling rig. The Kelly Bushing is the usual reference for all depth measurements during drilling operations.
EOR	-	Enhanced Oil Recovery
GJ	-	Gigajoules
Marketable or Sales Natural Gas	-	Natural gas that meets specifications for its sale, whether it occurs naturally or results from the processing of raw natural gas. Field and plant fuel and losses to the point of the sale must be excluded from the marketable quantity. The heating value of marketable natural gas may vary considerably, depending on its composition; therefore, quantities are usually expressed not only in volumes but also in terms of energy content. Reserves are always reported as marketable quantities.
NGLs	-	Natural Gas Liquids – Those hydrocarbon components that can be recovered from natural gas as liquids, including but not limited to ethane, propane, butanes, pentanes plus, condensate, and small quantities of non-hydrocarbons.
Raw Gas	-	Natural gas as it is produced from the reservoir prior to processing. It is gaseous at the conditions under which its Volume is measured or estimated and may include varying amounts of heavier hydrocarbons (that may liquefy at atmospheric conditions) and water vapour; may also contain sulphur and other non-hydrocarbon compounds. Raw natural gas is generally not suitable for end use.
EUR	-	Estimated Ultimate Recovery