ZENITH ENERGY LTD.

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2019

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COMPANY INFORMATION

Directors
Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)
Andrea Cattaneo (President, CEO and Director)
Luigi Regis Milano (Executive Director)
Dario Ezio Sodero (Non-Executive Director)
Erik Larre (Non-Executive Director)
Sergey Borovskiy (Non-Executive Director)

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COMPANY INFORMATION (CONTINUED)

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CHAIRMAN'S STATEMENT

Introduction

In the year ended March 31, 2019, we have seen a significant recovery in oil prices with oil supplies returning to balance with demand. This has been an important development which the Board has viewed with enthusiasm and positivity.

During the course of the past financial year, Zenith's strategy has been defined by a concentration of its financial resources towards achieving ownership of the key operational equipment deemed necessary for the successful development of its flagship asset in Azerbaijan, where a systematic drilling campaign is due to begin imminently.

To this end, Zenith shareholders will be pleased that that the Company has purchased a 1,200hp drilling rig which has undergone extensive refurbishment work in Italy prior to shipment to Azerbaijan, where it is currently deployed. In addition, the Company has also purchased a 100-ton workover rig manufactured in Azerbaijan, the second workover rig to be operated by Zenith in Azerbaijan, which is expected to be deployed to field activities in due course.

The Board believes the aforementioned strategy is well-considered and cogent for the following reasons:

Zenith has formulated a 25-year working programme for the development of its Azerbaijan asset. The programme primarily details workover and drilling activities which are intended to be performed on a systematic and sequential basis in order to maximise production from the asset for the duration of the REDPSA. It is therefore reasonable to assume that certain key operational equipment including drilling and workover rigs, as opposed to specialist equipment that can be sourced from local or international service companies when required, will be employed on an ongoing basis to implement the operations included in the working programme.

Following the above reasoning, the Company has determined that the estimated financial costs incurred by contracting third-party equipment and personnel to implement the 25-year programme would significantly outweigh the costs associated with owning the equipment and operating it 'in-house'. Indeed, as it is reasonable to assume that not all operational activities will be successful, ownership of the equipment will ensure that the Company will be able to more easily absorb the negative impact of an operational setback and mobilise its equipment to a new drilling or workover location.

Operationally, the Board also believes that ownership of the key operational equipment offers a series of benefits over contracting the equipment from third-parties. The primary overarching benefit is in fact that there will be no divide between operator and contractor. There will instead be a single shared objective which will be the successful implementation of Zenith's operational activities. Secondly, Zenith will not be exposed to the risks of drilling and workover rigs being unavailable due to their involvement in other projects. This is a common problem which often results in companies suffering delays in performing their activities due to the unavailability of equipment. Thirdly, the formation of Zenith's drilling teams and the deployment of its equipment, which will be refined with time to be best suited for its operational environments and demands, is expected to generate a significantly improved performance over external personnel and equipment in the medium and long-term.

For the above reasons, and the opportunities which have arisen that have made the purchase of equipment possible for the realization of this programme, the Board is confident regarding its strategy, whilst recognizing that it is uncommon for a company of Zenith's size to operate its own equipment. Indeed, as is clear, it is a rarity made possible by the peculiarities of our operational journey and the size of our Azerbaijan asset, which should very favorably distinguish Zenith from other companies during a time when the oil industry is enjoying a strong resurgence.

Financing activities

The Company issued equity during the course of the financial year ended March 31, 2019, raising a combined net total of CAD$6.07m to finance its operational activities and fund the purchase of key operational equipment for the development of its operational activities in Azerbaijan.

During the year, 101,628,366 new Ordinary Shares were issued, as detailed in the financial statements (note 14).

In addition to the share placing, the Company entered into two unsecured convertible loan facilities for a combined value of approximately £2,000k (CAD$3,476) and in January 11, 2019, the Company issued and listed, on the Third Market (MTF) of the Vienna Stock Exchange an unsecured corporate EMTN EUROPEAN MEDIUM TERM NOTES at par value for EURO 3,120k (CAD$4,671k).

Financial Results

The Group recorded an after-tax loss of CAD$9,762k for the year ended March 31, 2019, compared to a loss of CAD$9,918k for the year ended March 31, 2018.

Group production costs for the year were CAD$ 4,900k, compared to CAD$5,160k in 2018.

Net finance expense for the year was CAD$ 1,188k (2018: CAD$789k).

Cash balances of CAD$ 3,058k (2018: CAD$2,497k) were held at the end of the financial year.

Total equity attributable to the ordinary shareholders of the Group was CAD$569,081k as at March 31, 2019, (2018: CAD$ 571,894k).

Post Balance Sheet Events

The Group continued it financing activities through issuing 51,981,661 shares, with gross proceeds of £1,421k (CAD$ 2,493).

Details of the capital raising are available in note 29 to the Financial Statements.

Outlook

Zenith Energy Ltd. has recently acquired a modern drilling rig capable of drilling down up to 4,500 m to carry out the fifteen-year drilling programme. The Company plans to start its drilling programme by deepening two existing wells in the Jafarli Field and drilling one new well in the Muradkhanli Filed by the close of 2019.

The Company intends to drill three to four wells during the course of 2020.

Zenith intends to acquire an additional 2,000 hp drilling rig by the end of 2020, to ensure that the aim of drilling nine wells during 2021 and up to 10 wells per year up to 2035 can be achieved. In total, 147 development wells are expected to be drilled, of these, 58 will be horizontal wells in the Middle Eocene formation.

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 is projected to expand and modernize the surface facilities in anticipation of field production reaching a rate of 2,900 STB/d by 2021 and a peak rate of about 14,800. STB/d by 2034 in the proved plus probable case. It is anticipated that upgrades to the facilities and gathering system will take place as rates increase.

DR. JOSÉ RAMÓN LÓPEZ-PORTILLO
Chairman
June 28, 2019

CEO STATEMENT

Zenith Energy Ltd. ("Zenith" or "the Group") is an international oil and gas production Group, incorporated in Canada, listed on the TSX Venture Exchange under the ticker symbol, "ZEE", on the Main Market of the London Stock Exchange under the ticker "ZEN". In addition, the Company's common share capital was admitted to trading on the Merkur Market of the Oslo Børs under the ticker "ZENA:ME" on November 8, 2018. The Merkur Market is a multilateral trading facility owned and operated by the Oslo Børs.

Zenith's strategy is defined by its focus on the acquisition and further development of proven onshore oil and gas fields where production has declined over time, but which hold significant untapped reserves and the possibility to produce sizeable volumes of oil and gas following investment in new field infrastructure, the application of modern production technology, and new management supervision. To maximise shareholder value, Zenith targets acquisitions of production opportunities that offer strong logistics and close proximity to refineries and pipelines. Zenith's management and directors have extensive financial and government experience and possess the technical knowledge to execute this strategy.

The Group operates the largest onshore oilfield in Azerbaijan by cumulative acreage through its fully owned subsidiary, Zenith Aran Oil Company Limited, with an average daily production of 238 barrels per day and independently assessed proven + probable (2P) reserves of 30.6 million barrels of oil. Zenith also operates, or has working interests in, a number of gas production and exploration concessions in Italy with independently assessed 2P reserves of 16.3 BCF. Zenith's Italian operations also include the production of electricity and condensate.

Azerbaijan represents an unprecedented opportunity for energy development and the Directors are committed to the successful long-term development of this large, potentially transformational asset. The Group is seeking to demonstrate its strengths as an operator in one of the largest and most-storied oil and gas countries in the world by emphatically concentrating its efforts towards systematically increasing daily production of oil from the Muradkhanli, Zardab and Jafarli oilfields.

Zenith's strategy is to identify and rapidly seize opportunities in the onshore oil & gas sector. Specific attention is directed to fields formerly controlled by oil majors and state oil companies. These assets often have significant untapped potential and the capacity to produce sizeable volumes of oil & gas with investment in technology and new management supervision.

The results for the year ended March 31, 2019, clearly reflect the disappointing operational progress that the Group has achieved during the course of the 2019 Financial Year. The Group has to date, despite much potential and the significant deployment of its resources, been unsuccessful in achieving material increases in its daily production of oil. Furthermore, the Group is required to increase production levels from the 2015 average daily production of approximately 310 STB per day by 1.5 times, that is 465 STB per day, within October 3, 2019. Failure to meet the required production levels would result in a material breach of the REDPSA and may result in termination which would lead to loss of title to the Azerbaijani oil and gas asset, as well as non-recovery of the costs incurred by the Group with respect to the contract area since inception. The primary reasons for not increasing the daily produciton of oil have been communicated to investors, and include the very poor condition of many of our existing wells; the challenging geology of our field; as well the unreliability of well data and historical records from the Soviet-era which have rendered workovers in some of our wells extremely challenging.

This having been said, these initial setbacks have taught us a great deal about our Azerbaijan asset and have enabled us to recalibrate our strategy towards a direction which we believe will now deliver fruit. We have completed two geological studies to aid us in enhancing our understanding of the field's geology, which have led us to shift our focus towards operating in well's with verified well data and we believe that the Group will be producing more than enough STB per day to satisfy the production levels required by REDPSA by the end of the second quarter of the Financial Year 2020.

The beginning of drilling activities in the Jafarli Field, where we plan to deepen two existing wells, C-37 and C-30, is extremely exciting and is expected represent the turn of the tide for Zenith on an operational level. A positive result would enable the Company to provide 'proof of concept' and demonstrate that the significant work performed in the background during the past two years have all been part of a necessary learning curve prior to achieving success.

I am also extremely pleased regarding the deployment of our 1,200hp drilling rig which is expected to be deployed on a continued basis in drilling operations. It is one of the key instruments, alongside the technical, reservoir, and geological investigations we have completed, which will enable the Company to materially increase its daily production of oil against a backdrop of a strengthened oil industry and an undiminished primacy of hydrocarbons as the primary energy source.

The Group has updated the competent persons report ("**CPR**") as at March 31, 2019, following the additional challenges faced and the management team's improved understanding of the complex geology. The revised CPR formed part of the Directors impairment assessment of the Azeri asset as at March 31, 2019, following which no impairment has been recorded in the financial statements for the year ended March 31, 2019.

It should also be noted that CAD$3,703k (2018 – CAD$3,469k) of our operating loss for the year of CAD$8,573k (2018 – CAD$ 9,129k), can be explained by the following non-cash items: depletion and depreciation of the assets of CAD$2,283k (2018 – CAD$ 2,221k), retranslation variance on decommissioning obligations of CAD$413k (2018 – profit of CAD$761k), fair value of share options issued of CAD$1,007k (2018 – CAD$487k).

The potential and vast untapped value of the Zenith story remains unchanged. The size of our reserves, and our existing oil & gas production activities generating significant revenue each month, distinguishes us from many listed companies of our size and makes us particularly attractive.

I thank shareholders for their support. As is clear, I remain fully confident that we shall be able to recover lost ground and deliver some exceptional results through our drilling programme. I expect this to be reflected in our next annual report.

The Board is committed to sustained growth and exploiting any value accretive opportunities that may present themselves. We shall continue to evaluate the acquisition of additional energy production opportunities in major historical oil countries, building on the momentum of our recent progress to further support the Group's expansion.

Andrea Cattaneo
President, CEO and Director

June 28, 2019

Board of Directors and Senior Management

Directors

Jose Ramon Lopez-Portillo (*Chairman and Non-Executive Director*)

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.

Andrea Cattaneo (*Director, President and CEO*)

Mr. Cattaneo has been a Director of the Company since 9 December 2008 and has served as President and CEO of the Group 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, specifically the oil industry. He also has significant experience in former socialist countries and arranged the first US$ loan to Vietnam, the then third poorest county in the world, towards the beginning of his financial career in 1985. Mr. Cattaneo holds an undergraduate degree in Economics from the University of Genoa and a postgraduate degree in Taxation Law from the University of Bologna. He currently serves as Non-Executive Member of the Anglo-Azerbaijan Society, Partner of the Buenos Aires Stock Exchange and Member of the IADC Caspian Chapter Steering Committee. He is a former member of the Business Advisory Council to the Great Tumen Initiative, a United Nations project for regional economic cooperation in Northeast Asia. He is one of Zenith's founders.

Luigi Regis Milano (*Director*)

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).

Dario Ezio Sodero (*Non-Executive Director and Chairman of the Audit Committee*)

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 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.

Erik Larre (*Non-Executive Director*)

Mr. Larre has been a Director of the Company since 22 March 2011. Mr. Larre specialises in international real estate development projects and banking. He has served as Deputy Chairman of Sparebanken Nord-Norge, Member of the Supervisory Board at Sparebanken Vest and currently serves as Deputy Member of the Board of Directors at SpareBank 1 Nord-Norge. Erik is also the director of several real estate companies in southern Europe and the Middle East. By training Erik is an engineer and holds a Masters degree in Civil Engineering from Milan Polytechnic University.

Sergey Borovskiy (Non-Executive Director)

Sergey Borovskiy has over 25 years of experience in business management in China and Hong Kong. He has lived and worked in China since 1991 and is fluent in Russian, English and Mandarin.

Sergey is CEO of Sanju Environmental Protection (Hong Kong) Limited, overseeing the international projects of controlling shareholder Sanju Group (sanju.cn), a company specialised in energy purification and environmental protection technologies listed on the Shenzen Stock Exchange.

He is CEO and Chairman of General Transactions Inc., an oil & gas consulting, engineering, trading, seismic research and exploration services company. Sergey also serves as Chairman of the Board of Directors at Petro Chemical Solutions and South China Heavy Industries Group. Sergey studied in both China and Russia and holds a degree in economics.

Senior Management

Luca Benedetto (*Chief Financial Officer*)

Luca Benedetto is an Italian national, trained in Italy as a registered accountant with further education in IFRS accounting and consolidation at IPSOA Milan. He has more than twenty-five years of accounting, auditing and financial administration experience. Mr. Benedetto began his professional career as an accountant and computer programmer responsible for financial software development and worked for the Italian division of IBM as an internal auditor and accountant as well as providing staff training in these aforementioned fields. He also served for seven years as a financial and administrative officer in a well-established Italian company specialising in the construction of fuel and water storage tanks.

He joined the Zenith Energy Ltd. group in 2013 as Chief Financial Officer of the Group's Italian subsidiary, Canoel Italia S.r.l., and has since progressed to also hold the position of Group Financial Controller. In this capacity he has been directly involved in the monitoring of business performance, cash flow management, budgetary oversight, accounts team supervision, accounts preparation and strategic planning. Since January 2016 he has also been responsible for the compiling and reviewing of the quarterly Consolidated Financial Statements and Management's Discussion and Analysis of the Group.

DIRECTORS' REPORT

The Directors present their Annual Report and Financial Statements of the Group for the year ended March 31, 2019.

Financial review of activity for the period

Zenith Energy Limited issued equity on a number of occasions during the financial year ended March 31, 2019, raising a combined net total of CAD$5.7m to finance its drilling program plans and the purchase of key operational equipment for the development of its operational activities in Azerbaijan.

During the year, 101,628,366 new Ordinary Shares were issued, as detailed in the financial statements (note 14) and as per the following table.

	Number of Shares	Amount CAD$'000
Balance – March 31, 2018	**158,798,698**	**22,792**
Unit Prospectus placement proceeds	54,172,451	3,694
Unit private placement proceeds	44,106,906	2,334
Units issued in settlement of debt	3,349,009	371
Finder's fee	-	(325)
Total for the year	**101,628,366**	**6,074**
Balance – March 31, 2019	**260,427,064**	**28,866**

Following the issue of the new Ordinary Shares, the Company had 260,427,064 common shares in issue and admitted to trading on the Toronto Stock Exchange Venture Exchange and Mekur Market of the Oslo Bors, as of March 31, 2019.

As of the same date, Zenith had 226,422,852 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange.

Furthermore, the Company entered into a US$1,500,000 unsecured convertible loan facility (the "Facility") with a term of 18 months starting from August 30, 2018 as well as a new unsecured convertible loan facility for an aggregate total amount of up to £1 million (the "Loan Facility"), which is repayable on January 15, 2021. Finally, the Company issued and listed EURO 3,120k unsecured corporate EMTN EUROPEAN MEDIUM TERM NOTES at par value (the "**Notes**") on the Third Market (MTF) of the Vienna Stock Exchange.

There have not been any other significant changes to the Group's financial condition and operating results in the period covered by the financial statements.

During the year the Group incurred Production costs of CAD$4,900k (2018 – CAD $5,160) and General and Administrative costs of CAD$7,957k (2018 – CAD $6,767k).

Cash flow

Cash used in investing activities totalled CAD$5,205k (2018 - CAD $5,971k). The cash from financing activities in 2019 totalled CAD$8,328 (2018 - CAD $4,974k), due to the announced different share placings, issue of convertible loans and issue of bonds.

Closing cash

As at March 31, 2019, the Group held CAD$3,058k in cash (2018 - CAD $2,497k).

Position of Group's business at the year end

The Group's primary focus is the successful development of its flagship asset in Azerbaijan and the consolidation of its energy production interests in Italy. The Group's development strategy is defined by its intention to identify and complete value-accretive acquisitions to further enrich its asset portfolio. Further details can be found in the Chairman Statement.

At the year end the Group's Statement of Financial Position shows current assets totaling CAD$8,627k (2018 – CAD$4,582k) and non-current assets totaling CAD$1,080,061k (2018 – CAD$ 1,077,886k).

Business strategy

The Group'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.

Principal risks and uncertainties

The Group operates in an uncertain environment and is subject to a number of risk factors. The Directors consider the following risk factors are of particular relevance to the Group's activities and to any investment in the Group. It should be noted that the list is not exhaustive and that other risk factors not presently known or currently deemed immaterial may apply. The risk factors are summarised below:

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 a liability to the Group.

In accordance with industry practice, the Group is not fully insured against all of these risks, nor are all such risks insurable. Although the Group 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 Group 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 Group's business, financial condition, results of operations and prospects.

Risks relating to the Group's business strategy

The Group is dependent on the ability of the Directors to identify suitable investment opportunities and to implement the Group's strategy. There is no assurance that the Group's activities will be successful in implementing its strategy or acquiring a suitable investment that will ultimately be developed.

Environmental and other regulatory requirements

The event of a breach with any environmental or regulatory requirements may give rise to reputational, financial or other sanctions against the Group, and therefore the Board considers these risks seriously and designs, maintains and reviews its policies and processes so as to mitigate or avoid these risks. Whilst the Board has a good record of compliance, there is no assurance that the Group's activities will always be compliant.

Regional tension 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.

Financing

The Board are seeking to grow and acknowledge that financing could depend upon the Group's ability to obtain financing primarily through a further raising of new equity capital. The Group's ability to raise further funds may be affected by the success of its investments both in terms of both in terms of acquisitions and developing its asset base. The Group may not be successful in procuring the requisite funds on terms which are acceptable to it (or at all) and, if such funding is unavailable, the Group may be required to reduce the scope of its operations. Further, Shareholders' holdings of Ordinary Shares may be materially diluted if debt financing is not available.

Brexit

The Group does not foresee any material issues with Brexit at this stage and indeed would not look to conclude any transaction where the possibility of a detrimental effect caused by Brexit would be likely. There may be issues raising funds from investors in the short term however investor markets in the UK have continued to be strong and it remains too early to say if there will be any direct impact. The Directors continue to monitor events and as the Directors receive more information from the Government and the EU they will assess the impact to the Group and take appropriate steps as required.

Market conditions

Market conditions, including general economic conditions and their effect on exchange rates, interest rates and inflations rates, may impact the ultimate value of the Group regardless of its operating performance. The Group also faces competition from other organisations, some of which may have greater resources or be more established in a particular territory. The Board considers and reviews all market conditions to try and mitigate any risks that may arise from these.

Substantial shareholders

As at June 25, 2019, the total number of issued Ordinary Shares with voting rights in the Company was

Class of share	Total number of shares	Number of voting rights per share	Total number of voting rights per class of share
Common shares in issue and admitted to trading on the Main Market of the London Stock Exchange	258,404,153	1	258,404,153
Common shares in issue and admitted to trading on the TSXV	312,408,725	1	312,408,725
Common shares in issue and admitted to trading on the Merkur Market of the Oslo Børs	312,408,725	1	312,408,725

The Company has been notified of the following interests of 3 per cent or more in its issued share capital as at the date of approval of this report.

PARTY NAME	NUMBER OF ORDINARY SHARES	% OF SHARE CAPITAL
DEAN ANTONY CLARK	28,000,000	8.96

PARTY NAME	NUMBER OF ORDINARY SHARES	% OF SHARE CAPITAL
ANDREA CATTANEO	21,007,911	6.72
MITON UK MICROCAP TRUST PLC	13,848,312	4.43
MIRABAUD & CIE SA	11,556,167	3.70

Dividends

The Directors do not propose a dividend in respect of the year ended March 31, 2019 (March 31, 2018: nil).

Events subsequent to the year end

Further details of the Group's events subsequent to the year end are set out in note 29.

Going concern

The Group's business activities, together with facts likely to affect its future operations and financial and liquidity positions are set out in the Chairman's Statement. In addition, note 24 to the financial statements discloses the Group's financial risk management policy and note 2 details out further considerations made by the Director in respect of going concern. Their consideration has included a review of forecasts and an assessment as to whether the required REDSPA production levels will be achieved by the due date.
The Directors therefore have made an informed judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the annual financial statements. Further details on assumptions and conclusions drawn on going concern are included in the statement of going concern included in note 2 to the financial staements.

The auditors have made reference to going concern by way of a material uncertainty.

Auditors

The auditors, PKF Littlejohn LLP, have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.
The Directors are required to prepare financial statements for each financial year. The Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board ("IASB"). The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as issued by the IASB have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Approved by the Board dated on June 28, 2019

Signed ....
Jose Ramon Lopez-Portillo Chairman

General

As Zenith Energy Ltd has a standard listing within the United Kingdom, it is not required to comply with the Financial Conduct Authority's requirements report on compliance with, and application of, the UK Corporate Governance Code. The disclosures below, however, are required by Disclosure Guidance & Transparency Rules and NI 58-101 Disclosure of Corporate Governance Practices. The board of directors (the "Board") of Zenith Energy Ltd. (the "Company") has not adopted a Governance Code as the size of the Company and the number of staff at the parent Company does not warrant the adoption of such code, however, the Board recognises that good corporate governance is of fundamental importance to the success of the Group and procedures are in place in operating entities.

The Group's governance practices are the responsibility of the Board.

Leadership

The Group is headed by an effective Board which is collectively responsible for the long-term success of the Group. The role of the Board is to oversee the activity of management and to decide the strategy going forward. The non-executive directors role is to coach and monitor the activity of the Directors and managers that are involved in the operations of the Group. Acquisitions and disposals, borrowing facilities, issue of equity and any other major decision out of the ordinary course of business is specifically reserved for the Board.

The directors attendance to meetings up to the date of this report was as follows:

Date of Board Meeting	Jose Ramon Lopez-Portillo	Andrea Cattaneo	Luigi Regis Milano	Dario E. Sodero	Erik Larre	Sergey Borowskiy
31/05/2018 (B)	✓	✓	✓	✓		
19/06/2018 (B)	✓	✓	✓	✓		
28/06/2018 (AC)		✓		✓	✓	
28/06/2018 (B)	✓	✓	✓	✓		
13/08/2018 (B)	✓	✓	✓	✓		
12/11/2018 (AC)		✓	✓	✓		
12/11/2018 (B)		✓	✓	✓		
14/01/2019 (B)	✓	✓	✓	✓		✓
12/02/2019 (AC)		✓	✓	✓	✓	
12/02/2019 (B)		✓	✓	✓	✓	

AC: Audit Committee Meeting – B: Board Meeting

The Board

The Board is ultimately responsible for the effectiveness of the Group's system of internal controls. The Board verifies the implementation and effectiveness of the system that the top and middle management have implemented in the Group to prevent losses, fraud, corruption and missuse of assets, human resources and cash. Its key strategy has been to establish financial reporting procedures that provide the Board of Directors with a reasonable basis to make judgements as to the financial position and prospects of the Group.
Executive directors and non-executive directors have been appointed by the Board to assist with the implementation of this strategy and report progress to the Board. All the non-executive directors are considered independent from executive directors and management.

The Group's board of directors consists of six members namely

- 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)
- Erik Larre (Non-Executive Director)
- Sergey Borowskiy (Non-Executive Director)

As demonstrated by the background of the directors and managers, the Board present a large diversity in citizenship, age, education, profession and religion. The Board is committed to equal opportunities and intends to appoint a female Non-Executive Director in the near future.

Directorships and partnerships

In addition to their respective roles and directorships at the Group, the Directors are members of the administrative, management or supervisory bodies (the "**directorships**") or partners of the following companies or partnerships:

Name	**Current directorships/partnerships**
Jose Ramon Lopez-Portillo	Hybridair Ltd
	World SkyCat Ltd
Luigi Regis Milano	DP Lubrificanti S.r.l.
	Pole Position S.r.l.
Andrea Cattaneo	–
Dario E. Sodero	Planaval Resources Ltd
Erik Larre	Black Sea Property EME Int. Ltd
	German Property AS TF Italia Srl
	Tonsenhagen Forrenthingssentrum AS
	Tonsenhagen Forrenthingssentrum 2
Sergey Borovskiy	Sanju Environmental Protection (Hong Kong) Limited
	General Transactions Inc.
	Petro Chemical Solutions
	South China Heavy Industries Group

Orientation and continuing education

The Board is responsible for the orientation and education of new members of the board of directors and all new directors are provided with copies of the Group's board and committee mandates and policies, the Group's by-laws, documents from recent Board meetings and other reference materials relating to the duties and obligations of directors, the business and operations of the Group. New directors are also provided with opportunities for meeting and discussions with senior management and other directors.
Prior to joining the board, each new director will meet with the Chief Executive Officer of the Group.

Such officer is responsible for outlining the business and prospects of the Group, both positive and negative, with a view to ensuring that the new director is properly informed to commence his duties as a director.

Each new director is also given the opportunity to meet with the auditors and counsel to the Group. As part of the annual Board of Directors' assessment process, the Board of Directors determines whether any additional education and training is required for its members.

Ethical business conduct

The directors encourage and promote a culture of ethical business conduct through communication and supervision as part of their overall stewardship responsibility. In addition, the Group has adopted a Code of Conduct which addresses the Group's continuing commitment to integrity and ethical behaviour. The Code of Conduct establishes procedures that allow directors, officers and employees of the Group to confidentially submit their concerns to the Chief Executive Officer or the Chairman of the Board regarding questionable ethical, moral, accounting or auditing matters, without fear of retaliation. To the Group's knowledge there have been no departures from this Code of Conduct that would necessitate the filing of a material change report.

A copy of the Code of Conduct is available to review at the head office of the Group during business hours.

Nomination of Directors

The Board as a whole is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders of the Group, with the goal of ensuring that the Board consists of an appropriate number of directors who collectively possess the competencies identified as being appropriate to the effectiveness of the Board as a whole.

Remuneration

The Remuneration Committee is responsible for reviewing the Group's overall compensation strategy, and is responsible for reviewing and recommending for approval the salaries and compensation of the Group's executive officers.

The Remuneration Committee also reviews the compensation of the outside directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable organizations.

Board Committees

The Group's Board of Directors has three committees, the Audit Committee, the Remuneration Committee and the Corporate Governance Committee.

(a) Audit Committee

The Audit Committee comprises Jose Ramon Lopez-Portillo, Dario Sodero and Erik Larre and is chaired by Dario Sodero. The Audit Committee meets 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 Group (including annual and interim accounts and results announcements), reviewing the effectiveness of the Group'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 has unrestricted access to the Group'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 gives due consideration to laws and regulations and the requirements of the Listing Rules. The Group has an Audit Committee Charter.

(b) Remuneration Committee

The Remuneration Committee comprises Jose Ramon Lopez-Portillo, Dario Sodero and Erik Larre and is chaired by Jose Ramon Lopez-Portillo. It meets not less than twice a year and at such other times as required. The Remuneration Committee has responsibility for determining the Group's policy on the remuneration packages of the Group's chief executive, the chairman, the executive and non-executive directors 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 Group'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 Group'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

The Corporate Governance Committee comprises Sergey Borovskiy, Dario Sodero and Jose Ramon Lopez-Portillo and will be chaired by Sergey Borovskiy. It meets not less than once a year and at such other times as required. The Corporate Governance Committee ensures that the Group has in place sufficient procedures, resources and controls to enable it to comply with its continuing obligations as a company admitted to the Standard Segment of the Official List. The Corporate Governance Committee also monitors the Group's procedures to approve (a) announcements to ensure that the information disclosed by the Group is timely, accurate, comprehensive and relevant to the business of the Group and (b) any share dealings by directors or employees or announcements made by the Group to ensure compliance with the Group's policies, the Market Abuse Regulation, the Disclosure Guidance and Transparency Rules and the Listing Rules and such other regulations to which the Group is subject from time to time.

Assessments

The Remuneration Committee is responsible for developing an annual assessment of the overall performance of the Board and its committees.

The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. To date, the Remuneration Committee and the Board have not put into place a formal process for assessing the effectiveness of the Board as a whole, its committees or individual directors, but will consider implementing one in the future should circumstances warrant. Based on the Group's size, its stage of development and the number of individuals on the Board of Directors, the Remuneration Committee and the Board consider a formal assessment process to be inappropriate at this time. The Remuneration Committee and the Board plan to continue evaluating the Board's effectiveness on an ad hoc basis.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ZENITH ENERGY LIMITED

Opinion

We have audited the group financial statements of Zenith Energy Ltd ('the group') for the year ended 31 March 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the International Accounting Standards Board (IASB).

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2019 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. In addition, for the purposes of the group's regulatory filing requirements as a reporting issuer in Canada, we have also conducted our audit in accordance with International Standards on Auditing as issued by the International Auditing and Assurance Standards Board (ISAs (IAASB)). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and the International Ethics Standards Board for Accountants' Code of Ethics, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that the Group is committed to meet a minimum level of production by October 2019 in order to avoid a material breach of the REDPSA, which may result in a loss of title to the Azerbaijani oil and gas asset. At the date of this report, the Group has not achieved the minimum level of production as specified within the REDPJA. In addition, the Group is required to raise additional funds within the going concern period in order to continue developing its oil and gas projects and to simultaneously satisfy loan repayments which are due within the going concern period. The Group has not secured these funds at the date of this report. As stated in note 2, these events or conditions, along with the other matters as set forth in note 23, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Our application of materiality

Group materiality 2019	Group materiality 2018	Basis for materiality
CAD$10,800k	*CAD$10,800k*	*1% of gross assets*

We considered gross assets to be the most relevant consideration of the group's financial performance as the group continues to focus on and develop its Development & Production asset in Azerbaijan, which represents the majority of the property, plant and equipment value in the Consolidated Statement of Financial Position. Materiality remains unchanged from the year ended 31 March 2018 because the change in gross assets has been minimal.

Whilst materiality for the financial statements as a whole was CAD$10,800k, each significant component of the group was audited to a level of materiality ranging between CAD$90k – CAD$200k. We applied the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of CAD$540k (2018: CAD$540k). There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material.

An overview of the scope of our audit

In designing our audit, we determined materiality, as above, and assessed the risks of material misstatement in the financial statements. In particular, we looked at areas involving significant accounting estimates and judgements by the directors and considered future events that are inherently uncertain. These include the Key Audit Matters, detailed below, and also going concern. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. Of the seven reporting components of the group, an audit was performed on the financial information of three components. The other four components were not deemed to be significant, or material. As such these components were subject to analytical review procedures at group level.

Of the three reporting components subject to an audit of the financial information, one was located in Azerbaijan and we had oversight of, and regular communication with, the component auditor who was operating under our instructions. The remaining two components subject to an audit of their financial information was carried out by ourselves along with the analytical review procedures on the non-significant components. An onsite audit file review of the non-PKF component auditor was performed by a member of the Group audit team. This, in conjunction with additional procedures performed, gave us sufficient appropriate evidence for our audit opinion on the Group financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the key audit matter

Carrying amount of Development & Production ("D&P") assets within Property, Plant and Equipment (note 10 and note 4)
 	
The carrying value of D&P assets within property, plant and equipment was CAD$1,079,646k of which CAD$1,066,089k is in respect of the Group's Azeri operations (see note 5).
 	
The following indicators of impairment existed at 31 March 2019:
• **The expected level of production volumeperformance in the Competent Persons Report ("CPR") in respect of Azerbaijan has not been achieved; and**
• **The carrying amount of the Group's net assets exceeds the Company's market capitalisation.**
 	
Management has undertaken an impairment assessment using a discounted cash flow model ("DCFM"), which is based on inputs using management estimates and judgement which are outlined within note 4 to the financial statements.
 	
There is a risk that the carrying amount of the D&P assets are overstated and the assets should be impaired.
	Our work in this area included:
	
	• Ensuring that the group has legal title to the D&P assets recognised within the financial statements;
	• Discussing the plans for the development of the D&P assets owned by the group; and
	• Reviewing the underlying economic models used in the CPR from which the valuation arises and challenging the key assumptions therein including:
	
	    • Ensuring that the Competent Person had the relevant expertise to perform their work to the appropriate level of skill;
	
	    • Comparing the oil price assumptions to future prices;
	
	    • Challenging key inputs into the models including the discount rates used and benchmarking them where appropriate;
	
	    • Performing sensitivity analysis of the various underlying assumptions;
	
	    • Assessing the carrying value by considering the range of valuations indicated by the differing scenarios; and
	
	    • Considering the ability of the group to perform the required site development to ensure the site can meet production levels included in and underlying the CPR valuation.
	
	The carrying value of the Azerbaijan asset is dependent upon the accuracy of key inputs to the CPR. The headroom Is sensitive to reasonably possible changes in the key assumptions which would cause the carrying volune to exceed the recoverable amount. These include production volumes (which are impacted by the number of workovers, new wells and therefore the success of the refurbished drilling rig), oil price and discount rate.
	
	In order to achieve the production levels in the CPR, process improvements must be achieved over the next 3 years to ensure maximum recovery over the expected remaining life of the asset. The CPR envisages capital

Key Audit Matter	How the scope of our audit responded to the key audit matter
	expenditure of cUS$25m. If these developments are unsuccessful, occur outside of the timeframe indicated in the CPR or the Group has insufficient funds to implement them, then this may give rise to an impairment of this asset. Failure to meet the required production levels would result in a material breach of the REDPSA and may result in termination which could lead to loss of title to the Azerbaijani oil and gas asset, as well as non-recovery of the costs incurred by the Group with respect to the contract area since inception. We draw attention to note 4 and note 9 of the financial statements which describes the assessment of the recoverability of the Azerbaijan D&P asset which, if impaired, would likely have a material impact on the financial statements. Our opinion is not modified in this respect.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the group financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) or ISA (IAASB) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Joseph Archer

Joseph Archer (Engagement Partner)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

Date: 28 June 2019.

Consolidated Statement of Comprehensive Income

Continuing operations	Note	Financial year ended March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
Revenue	27	6,567	5,019
Cost of sales			
Production costs		(4,900)	(5,160)
Depletion and depreciation	9	(2,283)	(2,221)
Gross loss		**(616)**	**(2,362)**
Administrative expenses	5	(7,957)	(6,767)
Operating loss		**(8,573)**	**(9,129)**
Finance expense	7	(1,188)	(789)
Loss for the year before taxation		**(9,761)**	**(9,918)**
Taxation	8	(1)	-
Loss for the year attributable to owners of the parent		**(9,762)**	**(9,918)**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		(132)	422
Other comprehensive income for the year, net of tax		**(132)**	**422**
Total comprehensive income for the year attributable to owners of the parent		**(9,894)**	**(9,496)**

	Note	Financial year ended March 31, 2019	March 31, 2018
Earnings per share	21	**CAD $**	**CAD $**
Basic earnings per share		(0.04)	(0.07)
Diluted earnings per share		(0.04)	(0.07)

The notes on pages 32 to 75 form part of the Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Financial year ended March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	1,079,639	1,077,445
Financial assets at amortised cost	10	422	441
		1,080,061	**1,077,886**
Current assets			
Inventory	11	156	177
Trade and other receivables	12	5,413	1,908
Cash and cash equivalents		3,058	2,497
		8,627	**4,582**
TOTAL ASSETS		**1,088,688**	**1,082,468**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	14	28,866	22,792
Share warrants & option reserve	15	1,147	875
Contributed surplus		4,125	3,390
Retained earnings		534,943	544,837
Total equity		**569,081**	**571,894**
Non-current liabilities			
Loans	17	3,417	4,949
Non-convertible bond and notes	18	4,759	-
Deferred consideration payable	19	483,178	483,616
Decommissioning provision	20	9,089	9,140
Deferred tax liabilities	8	2,398	2,398
Total non-current liabilities		**502,841**	**500,103**
Current Liabilities			
Trade and other payables	16	12,115	9,238
Loans	17	3,776	237
Non-convertible bond and notes	18	199	407
Deferred consideration payable	19	676	589
Total current liabilities		**16,766**	**10,471**
TOTAL EQUITY AND LIABILITIES		**1,088,688**	**1,082,468**

Approved by the Board dated on June 28, 2019
Signed ....
Jose Ramon Lopez-Portillo Chairman
The notes on pages 32 to 75 form part of the Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent				
	Share capital	Share warrants & option reserve	Contributed surplus	Retained earnings	Total
	CAD $'000	CAD $'000	CAD $'000	CAD$'000	CAD $'000
Balance as at 1 April 2017	**17,229**	**1,877**	**2,332**	**554,009**	**575,447**
Loss for the year	-	-	-	(9,918)	(9,918)
Other comprehensive income	-	-	-	422	422
Total comprehensive income	-	-	-	(9,496)	(9,496)
Share issue net of costs – debt settlement	241	-	-	-	241
Share issue net of costs - private placement	2,790	-	-	-	2,790
Issue of options	-	487	-	-	487
Fair value of options exercised	-	(431)	-	324	(107)
Options expired	-	(1,058)	1,058	-	-
Option subscription monies received	2,532	-	-	-	2,532
Total transactions with owners recognised directly in equity	5,563	(1,002)	1,058	324	5,943
Balance as at March 31, 2018	**22,792**	**875**	**3,390**	**544,837**	**571,894**
Loss for the year	-	-	-	(9,762)	(9,762)
Other comprehensive income	-	-	-	(132)	(132)
Total comprehensive income	-	-	-	(9,894)	(9,894)
Share issue net of costs – debt settlement	371	-	-	-	371
Share issue net of costs - private placement	5,703	-	-	-	5,703
Value of warrants issued	-	167	-	-	167
Issue of options	-	928	-	-	928
Fair value of options expired	-	(401)	313	-	(88)
Warrants expired	-	(422)	422	-	-
Total transactions with owners recognised directly in equity	6,074	272	735	-	7,081
Balance as at March 31, 2019	**28,866**	**1,147**	**4,125**	**534,943**	**569,081**

Reserve	**Description and purpose**
Share capital	Amount subscribed for share capital
Share warrants & option reserve	Relates to increase in equity for services received – equity settled share transactions
Contributed surplus	Expired share options issued in previous years
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

The notes on pages 32 to 75 form part of the Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Financial year ended March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
OPERATING ACTIVITIES			
Loss for the year before taxation		(9,761)	(9,918)
Shares issued for services		371	241
Options/warrants charge	15	1,007	487
Foreign exchange		(441)	129
Depletion and depreciation	9	2,283	2,221
Finance expense	7	1,188	789
Change in working capital	13	(1,401)	5,621
Net cash outflows from operating activities		**(6,754)**	**(430)**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	(5,205)	(5,971)
Proceeds from disposal of property, plant and equipment	9	378	-
Net cash outflows from investing activities		**(4,827)**	**(5,971)**
FINANCING ACTIVITIES			
Proceeds from issue of shares, net of transaction costs		5,703	2,790
Proceeds from exercise of options		-	2,532
Fair value of options exercised		-	(107)
Proceeds from issue of bonds		1,099	-
Repayment of bonds		(375)	-
Proceeds from bonds in treasury		3,814	-
Decretion of bonds		-	(5)
Repayments of loans	17	(208)	(369)
Proceeds from loans	17	2,109	133
Net cash flows from financing activities		**12,142**	**4,974**
Net increase /(decrease) in cash and cash equivalents		561	(1,427)
Cash and cash equivalents at beginning of year		**2,497**	**3,924**
Cash and cash equivalents at end of year		**3,058**	**2,497**

Notes to the financial statements

1. Corporate and Group information

The consolidated financial statements of Zenith Energy Ltd. and its subsidiaries (collectively, the "**Group**") have been prepared on the basis set out below. Zenith Energy Ltd are exempt from preparing separate parent company financial statements for the year ended 31 March 2019 in line with Canada Business Corporations Act.

Zenith Energy Ltd. ("**Zenith**" or the "**Group**") was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on September 20, 2007 and is domiciled in Canada. The address of the Group's registered office is 20th Floor, 250 Howe Street, Vancouver, BC. VC6 3R8, Canada and its business address is 15th Floor, 850 - 2nd Street S.W., Calgary, Alberta T2P 0R8, Canada. The Group is primarily involved in the international development of energy production assets in Azerbaijan, where it operates the largest onshore oilfield in the country, and in Italy, where the Group has a well-balanced portfolio of production and exploration assets producing natural gas, natural gas condensate and electricity.

The Company's website is www.zenithenergy.ca.

Zenith is a public company listed on the TSX Venture Exchange under the ticker symbol, "**ZEE**", on the Main Market of the London Stock Exchange under the ticker "**ZEN**", and with its entire common share capital admitted to trading on the Merkur Market of the Oslo Børs under the ticker "**ZENA-ME**".

2. Basis of preparation

The consolidated financial statements presented in this document have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("IASB").

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

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

Presentation and functional currency

The presentation currency of the Group 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 Group's subsidiaries are; United States ("**US$**") dollars for the subsidiaries in Dubai and British Virgin Islands (including Azerbaijan operations), Euros ("**EUR**") for the subsidiary in Italy, Sterling ("**GBP**") for the subsidiary in the United Kingdom and Swiss Francs ("**CHF**") for the subsidiary in Switzerland.

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

All of the transactions that are not in the functional currency are treated as foreign and indicate currency transactions.
The factors that have determined the adoption of the CAD $ as presentation currency include:

- mainly affects the prices at which the goods or services are consolidated;
- Canada is the country whose regulations, market conditions and competitive forces mainly affect the pricing policy of the entity;
- influences the costs and expenses of the entity;
- the funds are usually generated in that currency; and
- the receipts from operating activities are retained in that currency.

Going concern

These financial statements have been prepared on a going concern basis which presumes that the Group will continue its operations in the normal course of business for the foreseeable future. In accordance with the terms of the Rehabilitation, Exploration, Development and Production Sharing Agreement ("**REDPSA**") with the State Oil Company of the Republic of Azerbaijan ("**SOCAR**"), the Group has an obligation to achieve certain production levels within two years from the date of SOCAR's approval of the Rehabilitation and Production Programme which falls on 3 Ocotber 2019. The Group is required to increase production levels from the 2015 average daily production of approximately 310 STB per day by 1.5 times, that is 465 STB per day, for a period of 90 consecutive days before the deadline elapses. Failure to meet the required production levels would result in a material breach of the REDPSA and may result in termination which could lead to loss of title to the Azerbaijani oil and gas asset, as well as non-recovery of the costs incurred by the Group with respect to the contract area since inception.

The Group is currently operating at an average of 238 STB per day (2018: 270 STB per day) and therefore has not yet reached the required production volumes. The production deadline is just over 3 months away which means that production must reach or exceed 465 STB on or before 12 July 2019 for 90 consecutive days in order to satisfy the obligation. The Directors believe that the planned drilling activities with the assistance of the newly refurbished drilling rig in the near-term will allow the Group to reach the aforementioned production levels to meet its REDPSA obligations. The Directors also believe that should the obligation within the REDPSA not be achieved within the aforementioned timescale, SOCAR would not exercise its right to take ownership of the project, which is based the Directors operational experience and supported by research undertaken by the Group into similar Companies who have breached similar REDPSA terms with SOCAR.

The Directors have reviewed the cash flow forecasts prepared by management up to and including July 2020, which are prepared on the basis that the Group continues to hold title to the Azerbaijani oil and gas asset and which takes into account the fund raises completed post year end, as well as loan repayments which fall due within 12 months of the date of the signing of the financial statements. The cashflow forecasts also include the capital expenses in respect of well workovers and drilling which the Group believe will be covered by a combination of funding generated by operations and the funds raised post year end, as well as further planned fund raises within the going concern period. The Directors believe that the planned fund raises via the various sources of capital available to the Group will be successful. The Group's ability to raise funds has been demonstrated in the year ended 31 March 2019. However, as at the date of approval of the financial statements, these funds have not been secured. Furthermore, in order to operate at the levels of production stated in the competent persons report ("**CPR**") the Group will need to raise additional funding over the life of the project to meet the capital expenditure required over and above the levels included within the cash flow forecasts.

The Directors therefore have made an informed judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group will continue to hold title to the Azerbaijan oil and gas asset and that the Group has access to adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have adopted the going concern basis of accounting in the preparation of the financial statements.

The Auditors have made reference to going concern by way of a Material Uncertainty within their audit report.

New standards and interpretations

a. Adoption of new and revised standards

The following IFRSs or IFRIC interpretations are those that were effective for the first time for the financial year beginning April 1, 2018 and relevant to the entity:

Standard / Interpretation/Amendments	
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Clarifications to IFRS 15	Revenue from Contracts with Customers
IFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to IFRSs: 2014-2016 Cycle	Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IAS 28 Investments in Associates

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

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

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Standard / Interpretation	impact on initial application	effective date
IFRS 9	Prepayment features with negative compensation	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatment	January 1, 2019
IFRS 3	Business combinations (amendment)	January 1, 2020
Annual Improvements to IFRSs: 2015-2017 Cycle	Amendments to: IFRS 3 Business combinations, IFRS 11 Joint Arrangements,	January 1, 2019

Standard / Interpretation	impact on initial application	effective date
	IAS 12 Income taxes and IAS 23 Borrowing costs	

The Directors do not expect that the adoption of the Standards listed above, in particular IFRS 16, will have a material impact on the financial statements of the Group in future periods.

3. Significant accounting policies

Consolidation

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

Name	*Country of incorporation and place of business*	*Proportion of ownership interest*	*Principal activity*
Canoel Italia S.r.l. (1)	Genova, Italy	98.6%	Gas, electricity and condensate production
Ingenieria Petrolera del Rio de la Plata S.r.l.	Argentina	100%	Not trading
Zenith Aran Oil Company Limited	British Virgin Islands	100%	Oil production
Aran Oil Operating Company Limited (2)	British Virgin Islands	80% owned subsidiary of Zenith Aran Oil Company Limited	Oil production
Altasol SA	Switzerland	100%	Oil trading
Zenith Energy (O&G) Ltd	United Kingdom	100%	Administrative services
Zena Drilling Limited (3)	Incorporated in UAE Place of business: Azerbaijan	100%	Oil and gas drilling

(1) Zenith Energy Ltd. has 100% control over Canoel Italia S.r.l. The Group granted 1.4% to the Director managing the Italian subsidiary in order to limit the risk of any liability to that entity. Therefore, no non-controlling interest arises from the consolidation of this subsidiary.

(2) The Directors of the Group have determined that the 20% interest of SOA in Aran Oil does not represent a non-controlling interest. This is a result of the structure of the REDPSA, whereby the financial entitlements of SOA are deemed to be legal obligations of the Group, and not a non-controlling interest in Aran Oil. The key factors considered in determining the appropriate treatment of SOA's 20% interest in Aran Oil included, but were not limited to:

- The allocation of voting rights and the ability of SOA to influence the decision making process;
- Legal obligations of each party under the REDPSA; and
- Legal structure of Aran Oil as a vehicle for executing the terms of the REDPSA.

(3) On November 28, 2018, the Company finalised the transfer of the legal ownership of the oilfield services subsidiary company, Zena Drilling Limited ("**Zena**"), incorporated in the Ras Al Khaimah Free Trade Zone ("**RAKFTZ**"), in the United Arab Emirates ("**UAE**"). Zena was incorporated on July 29, 2017 by Mr Andrea Cattaneo as probono trustee of the Company.

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

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.

The following entities have not been consolidated within the Group's financial statements because they are considered to be immaterial to the Group:

Name	*Country of incorporation and place of business*	*Proportion of ownership interest*	*Principal activity*
Leonardo Energy Consulting S.r.l.	Genova, Italy	48%	Dormant

__Property, plant and equipment__

Development and production expenditures

Development and production ("**D&P**") assets include costs incurred in developing commercial reserves and bringing them into production. 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 D&P assets have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of 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.

Impairment

At the end of each reporting period, the Group 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 Group 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 Group 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 center.

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 unwinding of discount and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the unwinding of discount is recognised as finance expenses. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Cash and cash equivalents
Cash and cash equivalents 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.

Financial instruments
Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost using the effective interest method:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Impairment of financial assets

The Group applies the expected credit loss model to financial assets measured at amortized cost or at fair value through other comprehensive income. There are no financial assets other than trade receivables.

De-recognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities
All financial liabilities are measured subsequently at amortised cost using the effective interest method.

Compound financial instruments

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

De-recognition of financial liabilities

The Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished-ie. when the obligation specified in the contract is discharged or cancelled or expires.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost. For financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

The Group's financial assets were classified as financial assets measured subsequently at amortized cost. The Group's financial liabilities were classified as financial liabilities measured subsequently at amortized cost. The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

Deferred consideration liability

Deferred consideration comprises capital commitments acquired as part of the Azerbaijan business combination transaction. These liabilities are measured at the net present value of contracted future cash flows. Details of the value and timing of future cash flows from the deferred consideration liability are included at note 19.

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

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

Share-based payments

The cost of providing share-based payments to employees is charged to the statement of comprehensive income (or treated as a share issue cost) over the vesting period of the related share options or share allocations. The cost is based on the fair values of the options, which is determined using the Black Scholes method. The values 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 Directors or employees the consolidated statement of comprehensive income is charged with the fair value of the related goods or services received.

Earnings per share

The Group presents basic and diluted earnings per share for its common shares. Basic earnings per share amounts are calculated by dividing the profit or loss attributable to common shareholders of the Group 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 from contracts with customers

The Group enters into contracts for the sale of oil and gas. Revenueis recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards or ownership have been transferred to the customer and collection of the sales price is reasonably assured. The performance obligation is identified to be the delivery of oil and gas to the customer, and the transaction price is allocated to the amount of oil and gas delivered. These criteria for performance obligation are assessed to have occurred once the product has been delivered to the customer.

Foreign currency translation

Foreign currency transactions are translated into the respective functional currencies of the Group 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 Group'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.

Finance expense

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

Taxation

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

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

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

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

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

4. Critical accounting estimates and judgements

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 assumptions about the future. The relating accounting estimates will by definition, seldom equal to related achieved result. The estimates and judgements 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:

Going concern / minimum production required
The Directors have provided detail within notes 2 and 23 to these financial statements which explain the Group's obligations and commitments under the REDPSA and the potential consequences of not meeting those obligations. The Directors have assessed that the Group will be able to meet the obligations within the required timeframe and have noted the challenges that they face in being able to do so. This is considered a cirtical accounting judgement due to the nature of uncertainy surrounding the factors which directly effect the Group's ability to meet the REDPSA obligations. as they are based upon using newly acquired assets.

Property, plant and equipment
Management reviews the Group's property, plant and equipment annually 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 9. The carrying value of property, plant and equipment as at March 31, 2019 was CAD $1,079,639k (2018 – CAD $1,077,445k). It is also dependent on the Group being able to meet the CPR stated capital expenditure to ensure estimated cashflows are met and this is dependent on the availability of funding. It is also dependent on the Group being able to meet the production rate required by the REDPSA to ensure good title to the Azeri asset remains.

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 Group's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. The engineers issue a Competent's Person Report ("CPR") and the latest version was published on Zenith Energy Ltd's website (www.zenithenergy.ca) on 28 June 2019. 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 judgement and interpretation.

Compensatory oil
The Group have a contractual 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, reflect this part of production that has to be delivered to Socar, valued at the estimated production price of US$20 per barrel. The production price per barrel has been estimated on historical basis, based on the production costs per barrel of the former ownership of the concession (SOCAR). The carrying value of the compensatory oil provision as at March 31, 2019 is CAD $5,424k (2018 – CAD $5,444k)

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 17. The carrying value of the decommissioning costs as at March 31, 2019 is CAD $9,089k (2018 – CAD $9,140k).

5. Administrative expenses

During the yer ended March 31, 2019, the Group incurred CAD$ 7,957k (2018 - CAD$ 6,767k) of Administrative Expenses. Furthermore, during the same period the Group incurred CAD$ 2,706k (2018 - CAD$ 487k) of non-recurrent expenses which relate to the cost of raising funds, negotiation for potential acquisition of producing assets and the share based payments costs, which is a non-cash item.

	Year ended March 31, 2019 CAD$'000	March 31, 2018 CAD$'000
Auditors remuneration - audit fees Group	**129**	110
Auditors remuneration - associates of Group auditors	**-**	45
Accounting and bookkeeping	**30**	123
Consultancy fees	**1,021**	1,135
Legal	**163**	507
Other professional fees	**-**	48
Office	**627**	273
Administrative expenses	**481**	1,159
Foreign exchange (gain)/loss	**(314)**	563
Other administrative expenses	**-**	74
Salaries	**2,547**	1,695
Travel	**567**	548
General and administrative expenses	**5,251**	**6,280**
Non-recurringexpenses		
Bond issue costs	**127**	-
Listing costs (Norway and UK)	**1,167**	-
Aborted Transaction Costs	**405**	-
Share based payments	**1,007**	487
Total non-recurring expenses	**2,706**	**487**
Total general and administrative expenses	**7,957**	**6,767**

6. Staff cost

(a) *Employee compensation cost*

During the year the Group had an average of 207 (2018: 206) full time employees based in its offices in London in the UK, Baku in Azerbaijan and Genoa in Italy.

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

	2019 CAD $'000	2018 CAD $'000
Operating	2,285	2,424
General and administrative	2,547	1,695
Share based payments	1,007	487
Total employee compensation cost	5,839	4,606

(b) *Key management compensation*

Key management personnel are those people having authority and responsibility for planning, directing and controlling the activities of an entity, either directly or indirectly. The following table summarises annual compensation and long-term compensation of the Group's "Named Executive Officers" (as defined by Form 51-102F6) for the two most recently completed financial years that ended on March 31, 2019. The named executive officers equate to key management personnel:

Name and principal position	Year[2]	Short term employee benefit CAD $'000	Other short term benefits CAD $'000	Other long term benefits CAD $'000	Share based payments CAD $'000	Other benefits CAD $'000	Total CAD $'000
Andrea Cattaneo (1-2-3)	2018	685	42		56	36	819
	2019	667	-	-	462	419	1,548
Luigi Regis Milano [4]	2018	63	-	-	-	18	81
	2019	60	-	-	36	17	113
Jose Ramon Lopez-Portillo [5]	2018	-	-	-	-	-	-
	2019	-	-	-	22	-	22
Dario Sodero[6]	2018	8	-	-	-	-	8
	2019	8	-	-	18	-	26
Erik Larre (7)	2018	-	-	-	-	-	-
	2019	-	-	-	62	-	62
Sergey Borovskiy (8)	2018	-	-	-	-	-	-
	2019	-	-	-	62	-	62
Luca [9] Benedetto	2018	152	-	-	42	-	194
	2019	199	-	-	116	23	338
Alan Hume[10]	2018	24	-	-	-	-	24

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 £210k (CAD $366k), payable in equal monthly instalments, plus benefits for the year ended March 31, 2019. Mr Cattaneo has agreed to swap his full salary for new Common Shares ("Salary Sacrifice Shares"), with effect from 1 April 2018. The new Common Shares are issued on a quarterly basis at a price that is the average price at which the Common Shares traded during the period, based on the mid-market closing price on the London Stock Exchange. Mr. Cattaneo also received a yearly bonus compensation of CAD$200k from the parent Company and CAD$101k from subsidiary undertakings.

2. Mr. Andrea Cattaneo received a share-based payment of CAD$462k, relating stock options granted during the year ended March 31, 2019.
3. Mr. Andrea Cattaneo had CAD$34k as Director fee compensation, CAD$59k as Fee for guarantee remuneration and CAD$174k as a management fee premium for EMTN issue, during year ended March 31, 2019.
4. Mr. Luigi Regis Milano had a yearly compensation of CAD$60k from subsidiary undertakings, a share-based payment of CAD$36k, relating stock options granted during the year, and CAD$17k as Director fee compensation, for the year ended March 31, 2019
5. Mr. Jose Ramon Lopez-Portillo received a share-based payment of CAD$22k, relating stock options granted during the year ended March 31, 2019.
6. Mr. Sodero received a fee for professional consulting services of approximately CAD$8k and a share-based payment of CAD$18k, relating stock options granted, during the year ended March 31, 2019.
7. Mr. Erik Larre received a share-based payment of CAD$18k, relating stock options granted during the year ended March 31, 2019.
8. Mr. Sergey Borovskiy a share-based payment of CAD$62k, relating stock options granted during the year ended March 31, 2019.
9. Mr. Luca Benedetto was appointed as Chief Financial Officer from April 2017, and received a compensation of CAD$167k from the parent Company and and CAD$32k from subsidiary undertakings. He also received a share-based payment of CAD$116k, relating stock options granted during the year and accrual for annual leave for CAD$23k,for the year ended March 31, 2019.
10. Mr. Alan Hume served as Chief Financial Officer from September 2016 to April 2017.

7. Finance expense

	2019 CAD $'000	2018 CAD $'000
Interest expense	469	423
Accretion of decommissioning provision	363	371
Effective interest on financial liabilities held at amortised cost	356	-
Decretion of bonds	-	(5)
Net finance expense	**1,188**	**789**

8. Taxatiom

	2019 CAD $'000	2018 CAD $'000
Current tax	-	-
Deferred tax	-	-
Total tax charge for the year	**-**	**-**

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

	2019 CAD $'000	2018 CAD $'000
Loss before taxation	(9,761)	(9,918)
Expected tax at 27%	(2,635)	(2,678)
Differences on tax rates attributable to other jurisdictions	85	259
Non-deductible expenses	272	-
Changes in enacted rates and other	(48)	-
Temporary differences	(30)	83
Tax losses carried forward	2,356	2,344
Under(over)provided in prior years	-	(8)
Tax charge	-	-

The tax (credit) / charge for the year ended March 31, 2019 comprised CAD $Nil (2018 – CAD $Nil) of current tax expense and CAD $Nil deferred tax reduction (2018 – CAD $Nil deferred tax reduction).

Recognised deferred tax liabilities are attributable to the following:

	2019 CAD $'000	2018 CAD $'000
Property and equipment	(2,554)	(2,554)
Decommissioning obligation	47	47
Non-capital loss carryforwards	109	109
Recognised deferred tax liabilities	2,398	2,398

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:

	2018 CAD $'000	2018 CAD $'000
Non-capital loss carryforwards	64,980	27,923
Share issuance costs	156	282
Capital losses	3,408	3,409
Other	978	104
Unrecognised deferred tax assets	69,522	31,718

As at March 31, 2019, the Group has accumulated non-capital losses in Canada totaling CAD $638,484k (2018 - CAD $632,171k) which expire in varying amounts between 2022 and 2039 and CAD $795k (2018 – CAD $400k) of non-capital losses with no expiry date.

9. Property, plant and equipment

	D&P Assets CAD $'000
Carrying amount at March 31, 2017	**1,072,933**
Additions	6,026
Disposals	(55)
Depletion and depreciation	(2,221)
Compensatory oil delivered	(271)
Foreign exchange differences	1,033
Carrying amount at March 31, 2018	**1,077,445**
Additions	5,205
Disposals	(378)
Depletion and depreciation	(2,283)
Compensatory oil delivered	(347)
Foreign exchange differences	(3)
Carrying amount at March 31, 2019	**1,079,639**

Property, plant and equipment have attached capital commitments represented by deferred consideration payable. The details of these capital commitments are included within the 'Capital costs' section of note 17.

Impairment test for property, plant and equipment

As at March 31, 2019, a review was undertaken of the carrying amounts of property , plant and equipment to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss. Following this review impairment triggers were noted in relation to the Azerbaijan assets due to the carrying amount of the Group net assets exceeding the Company's market capitalision and also the Group encountered some operational difficulty with well workovers which led to lower than expected production levels compared to forecasts for the same period.

As there is no readily available market for the Group's oil and gas properties, fair value is derived as the net present value of the estimated future cash flows arising from the continued use of the assets, incorporating assumptions that a typical market participant would take into account. The value in use of an oil and gas property is generally lower than its Fair Value Less Costs of Disposal ('FVLCD') as value in use reflects only those cash flows expected to be derived from the asset in its current condition. FVLCD includes appraisal and development expenditure that a market participant would consider likely to enhance the productive capacity of an asset and optimise future cash flows. Consequently, the Group determines recoverable amount based on FVLCD using a Discounted Cash Flow ('DCF') methodology.

The DCF was derived by estimating discounted after tax cash flows for each CGU based on estimates that a typical market participant would use in valuing such assets. The impairment tests compared the recoverable amount of the respective CGUs noted below to the respective carrying values of their associated assets. The estimates of FVLCD meet the definition of level three fair value measurements as they are determined from unobservable inputs.

Azerbaijan Cash Generating Unit
In accordance with IAS 36, the impairment review was undertaken in US$ being the currency in which future cash flows from Azerbaijan will be generated.

Key assumptions:

- **Production profiles:** these were based on the latest available information from management and included 2P reserves for Jafarli and Muradkhanli of 30.5 MSTB (2018 – 31.7 MSTB).
- **Capital and operating costs:** these were based on the current operating and capital costs in Azerbaijan.
- **Oil price:** An average 2019 oil price of $58.5/STB based on information for the Urals Oil stream and information provided by management.
- **Discount rate:** The estimated fair value less costs to sell of the Azerbaijan CGU was based on 10% (2018 – 10%). This was based on a Weighted Average Cost of Capital analysis consistent with that used in previous impairment reviews.

Based on the key assumptions set out above:

- The estimated recoverable amount of the Azerbaijan CGU at March 31, 2019 was higher than its carrying amount by CAD$38m, therefore, no impairment was recognised in the year ended March 31, 2019 (2018 - CAD $nil) in the consolidated statement of comprehensive income.

Sensitivy analysis for Azerbaijan:

Any impairment is dependent on judgement used in determining the most appropriate basis for the assumptions and estimates made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to likely and potential changes in key assumptions has therefore been provided below. The impact on the impairment calculation of applying different assumptions to oil prices, production volumes, future capital expenditure and discount rates, all other inputs remaining equal, would be as follows:

		Increase in headroom /(Impairment required) (CAD $)
Impact if oil prices:	Increased by 20%	280m
	Decreased by 20%	(203m)
Impact if production volumes:	Increased by 20%	280m
	Decreased by 20%	(203m)
Impact if future capital expenditure:	Increased by 20%	(50m)
	Decreased by 20%	127m
Impact if discount rate:	Increased by 5 percentage points to 15%	(245m)
	Decreased by 5 percentage points to 5 %	490m

Italian Cash Generating Unit

Key assumptions:

- **Production profiles:** these were based on the latest available information from management.
- **Capital and operating costs:** these were based on the current operating and capital costs in Italy.
- **Gas price:** An average 2019 oil price of $4.39/Mscf based on information from the World Bank European gas price forecast and information provided by management.

- **Discount rate:** The estimated fair value less costs to sell of the Italian CGU was based on 15% (2018 – 15%). This was based on a Weighted Average Cost of Capital analysis consistent with that used in previous impairment reviews.

Based on the key assumptions set out above:

- The estimated recoverable amount of the Italian CGU at March 31, 2019 was higher than its carrying amount by CAD$8m, therefore, no impairment was recognised in the year ended March 31, 2019 (2018 - CAD $nil) in the consolidated statement of comprehensive income.

10. Non-current financial assets held at amortised cost

Upon the change of ownership of the assets acquired in Italy in the year 2016, the Group obtained an insurance policy for its Italian oil and gas operations. The policy has a five year term for which the Group paid the total premium of EUR 567k (CAD $868k), of which CAD $nil (2018 – CAD $nil) has been recognised as an expense. The outstanding balance of CAD $422k (2018 - CAD $441k) is included in long-term assets. During the year 2016 the Group received the news that the insurance company was in default. The Directors decided not to expense the monthly installment on the prepaid insurance, waiting for the reimbursement promised by the State of Romania, where the insurance company was based.

11. Inventory

As at March 31, 2019, inventory consists of CAD $nil (2018 – CAD $6k) of crude oil that has been produced but not yet sold, and CAD $156k of materials (2018 – CAD $171k) . The amount of inventory recognised in the statement of comprehensive income is CAD $220k (2018 - CAD $39k).

	2019		2018	
	Barrels	**CAD $'000**	**Barrels**	**CAD $'000**
Azerbaijan	-	-	104	6
Azerbaijan - materials	-	148	-	165
Italy	-	8	-	6
	-	**156**	**104**	**177**

12. Trade and other receivables

	2019 CAD $'000	2018 CAD $'000
Trade receivables	1,362	1,799
Bonds in treasury	3,835	-
Other receivables	52	109
Directors loan account	164	-
Total trade and other receivables	5,413	1,908

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. The Group's customer base is of a similar bracket and share the same characteristics, as such these have been treated as one population. The Group's customers are all State customers, therefore, the lifetime expected losses are considered to be CAD$ nil.

13. Change in working capital

	2019 CAD $'000	2018 CAD $'000
Trade and other receivables	(3,510)	(238)
Inventory	21	(39)
Prepaid expenses	5	30
Prepaid property and equipment insurance	19	(40)
Trade and other payables	2,064	5,908
Total change in working capital	(1,401)	5,621

14. Share Capital

Zenith is authorised to issue an unlimited number of Common Shares, of which 101,628,366 were issued at no par value and fully paid during the year ended March 31, 2019 (2018 – 43,221,468). All Common Shares have the right to vote and the right to receive dividends. Zenith is authorised to issue an unlimited number of preferred shares, issuable in series, of which none have been issued as of the date of these Financial Statements. The Directors of the Group may by resolution fix the rights, privileges, restrictions and conditions of the preferred shares of each series.

Following the issue of the new Ordinary Shares, the Group had 260,427,064 common shares in issue and admitted to trading on the Toronto Stock Exchange Venture Exchange and Mekur Market of the Oslo Bors, as of March 31, 2019.
As of the same date, Zenith had 226,422,852 common shares in issue and admitted to trading on the Main Market of the London Stock Exchange.

Issued	**Number of common shares**	**Amount CAD $'000**
Balance – April 1, 2017	**115,577,230**	**17,229**
Exercise of stock options	1,000,000	-
Exercise of warrants	1,019,250	153
Balance – June 30, 2017	**117,596,480**	**17,382**
Non-brokered unit private placement	3,533,333	438
Finder's fee	-	(22)
Non-brokered unit private placement	2,666,667	328
Finder's fee	-	(16)
Non-brokered unit private placement	666,666	82
Finder's fee	-	(4)
Non-brokered unit private placement	3,600,000	404
Finder's fee	-	(20)
Exercise of stock option	1,000,000	100
Settlement of debt	111,131	17
Balance – September 30, 2017	**129,174,277**	**18,689**
Exercise of warrants	2,049,775	307
Exercise of warrants	1,257,875	189
Exercise of warrants	1,306,050	261
Exercise of warrants	500,000	75

Issued	Number of common shares	Amount CAD $'000
Exercise of warrants	1,612,142	322
Exercise of warrants	3,150,000	473
Exercise of stock option	2,000,000	200
Exercise of warrants	400,000	80
Exercise of stock option	1,000,000	150
Exercise of stock option	1,650,000	202
Exercise of warrants	100,000	20
Balance – December 31, 2017	**144,200,119**	**20,968**
Non-brokered unit private placement	4,000,000	500
Non-brokered unit private placement	9,000,000	1,158
Finder's fee	-	(58)
Settlement of debt	1,598,579	224
Balance – April 1, 2018	**158,798,698**	**22,792**
Settlement of debt (i)	1,123,068	185
Non-brokered unit private placement (oo)	54,172,451	3,694
Finder's fee	-	(187)
Balance – June 30, 2018	**214,094,217**	**26,484**
Finder's fee	-	(5)
Balance – September 31, 2018	**214,094,217**	**26,479**
Settlement of debt (iii)	2,225,941	186
Non-brokered unit private placement (iv)	20,782,429	1,141
Non-brokered unit private placement (v)	2,857,143	157
Finder's fee	-	(107)
Balance – December 31, 2018	**239,959,730**	**27,856**
Non-brokered unit private placement (vi)	10,364,640	517
Non-brokered unit private placement (vi)	10,102,694	519
Finder's fee	-	- (26)
Balance – 31 March 2019	**260,427,064**	**28,866**

i) On May 4, 2018, Mr. Cattaneo swapped part of his salary for the 2018 financial year in exchange for common shares in Zenith. As a result the Group issued Mr. Andrea Cattaneo 1,123,068 common shares in the capital of the Group at an average price of CAD$0.165 (approximately £0.094) for the period from April 1, 2017, until March 31, 2018, for an amount of CAD$185k. The amount of the Salary Sacrifice Shares was calculated based on Mr. Cattaneo's salary as at April 1, 2017.

ii) On June 21, 2018, the Company raised gross proceeds totaling, in aggregate, £2,167k (CAD$3,694k). As a result of the Placing, Subscription the Group issued a total of 54,172,451 new common shares, (the "**New Common Shares**").

The Company also paid finder's fees for CAD$192k, of which CAD$5k were recognized in the Q2 of the FY 2019, and issued 1,280,000 warrants, that could be exercised at a price of CAD$0.07 for a duration of three years.

iii) On October 2, 2018, Mr. Andrea Cattaneo swapped his salary for the first two quarters of the 2019 financial year in exchange for common shares in the capital of Zenith ("**Salary Sacrifice Shares**"). As a result, on October 1, 2018, the Company issued Mr. Cattaneo 2,225,941 Salary Sacrifice Shares at an average price of CAD$0.108 for the period from April 1, 2018, to June 30, 2018, and at an average price of CAD$0.069 for the period from July 1, 2018, to September 30, 2018. The amount of Salary Sacrifice Shares was calculated on the basis of Mr. Cattaneo's salary as at October 1, 2018.

iv) On November 7, 2018, the Group received approval for admission to trading of its entire common share capital on the Merkur Market of the Oslo Børs (the "**Merkur Market**"). In order to satisfy the Merkur Market admission requirements the Company completed a private placement with Norwegian investors (the "**Private Placement**"). The Private Placement successfully raised gross proceeds of NOK 7,274k (approximately £668k or CAD$1,142k) through the placement of 20,782,429 common shares of no-par value (the "**Placement Shares**") at a subscription price of NOK 0.35 per share (approximately £0.032 or CAD$0.055 per Placement Share).

v) On November 12, 2018, the Group completed a private placement on the Merkur Market of the Oslo Børs with Norwegian investors raising gross proceeds of NOK 1 million (approximately £92k or CAD$157k) through the placement of 2,857,143 common shares of no par value (the "**Placement Shares**") at a subscription price of NOK 0.35 per Placement Share (approximately £0.032 or CAD$0.055).

vi) On February 8, 2019 the Group announced the completing of 2 offerings, one in Canada, (the "Canadian Financing"), and the other in the United Kingdom, (the "UK Financing"), with a consortium of private and institutional investors to raise a total of £607k (approximately CAD$1,036k). The Company paid related finder's fee for CAD$26k.

The Group intends to use the aggregate proceeds of the Canadian Financing and the UK Financing to increase its continued investment in its Azerbaijan field operations and for general working capital.

Canadian Financing
Zenith issued a total of 10,364,640 common shares of no par value in the capital of the Group ("Common Shares") at a price of CAD$0.05 in connection with the Canadian Financing to raise gross proceeds of CAD$519k (approximately £304k).

Each subscription for a Canadian Financing Common Share has attached a share purchase warrant with a duration of twelve months and an exercise price of CAD$0.10.

UK Financing

Zenith issued a total of 10,102,694 Common Shares of no par value in the capital of the Company at a price of £0.03 in connection with the UK Financing (the "UK Financing Common Shares") to raise gross proceeds of £303k (approximately CAD$517k).

15. Warrants and options

	Number of options	Number of warrants	Weighted average exercise price	Amount CAD$'000
Balance – April 1, 2017	**5,000,000**	**56,995,908**	**0.21**	**1,877**
Options issued	2,750,000	-	0.15	200
Warrants exercised	-	(1,019,250)	0.15	(153)
Expired	-	(7,533,833)	0.25	(220)
Balance – June 30, 2017	**7,750,000**	**48,442,825**	**0.20**	**1,704**
Options issued	2,000,000	-	0.17	305
Warrant issued	-	180,000	0.07	12
Options excercised	(3,900,000)	-	0.10	(226)
Options excercised	(1,750,000)	-	0.12	(98)
Warrants excercised	-	(10,375,842)	0.25	(53)
Warrants expired	-	(2,349,320)	0.15	(76)
Warrants expired	-	(8,870,019)	0.25	(693)
Balance – April 1, 2018	**4,100,000**	**27,027,644**	**0.19**	**875**
Options issued	10,500,000	-	0.12	927
Warrants issued	-	1,280,000	0.07	43
Warrants expired	-	(1,807,500)	0.25	(192)
Warrants expired	-	(8,628,813)	0.15	-
Balance – June 30, 2018	**14,600,000**	**17,871,331**	**0.19**	**1,653**
Warrants issued	-	6,977,988	0.05	59
Warrants expired	-	(1,350,000)	0.25	(46)
Options expired	(1,000,000)	-	0.15	(119)
Options expired	(1,500,000)	-	0.17	(193)
Options expired	(1,000,000)	-	0.12	(88)
Warrants expired	-	(4,214,125)	0.25	(107)
Warrants expired	-	(732,920)	0.20	-
Balance – December 31, 2018	**11,100,000**	**18,552,274**	**0.15**	**1,159**
Warrants issued	-	11,358,390	0.10	65
Warrants expired	-	(10,114,286)	0.18	(77)
Balance – March 31, 2019	**11,100,000**	**19,796,378**	**0.12**	**1,147**

Type	Grant Date	Number of options	Exercise price per unit CAD$	Expiry Date
Stock options	November 2016	**1,100,000**	0.10	November 2021
Stock options	May 2017	**1,000,000**	0.15	May 2022
Stock options	November 2017	**2,000,000**	0.18	November 2022
	TOTAL OPTIONS	**4,100,000**		
Stock options	November 2016	**1,100,000**	0.10	November 2021
Stock options	November 2017	**500,000**	0.18	November 2022
Stock options	April 2018	**9,500,000**	0.12	April 2023
	TOTAL OPTIONS	**11,100,000**		

Options

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

As at March 31, 2019, the Group had 11,100,000 stock options outstanding (relating to 11,100,000 shares) and exercisable at a weighted average exercise price shown on the table above per share with a weighted average life remaining of 3.73 years.

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

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

Granting of options

On April 3, 2018, the Board of Directors resolved to grant its directors, certain employees and consultants a total of 10,500,000 stock options (the "**Options**"), in accordance with the Company's Stock Option Plan. The exercise price of the Options was equivalent to the Company's TSXV closing price of March 26, 2018, being CAD$0.12 (approximately £0.067). The Options are fully vested and have an expiry date of five years from the date of granting.

Expiry of options

- Some employees who had been granted share options left the Group in previous quarters and, as stipulated in the stock option agreements, these options expired upon the elapsing of three months from the date of leaving. During the quarter ending December 31, 2018, the Group updated their holdings for the 3,500,000 expired stock options.

Type	Grant Date	Number of Warrants	Price per unit CAD$	Expiry Date
Warrants	Apr 2015	**1,417,500**	0.25	April 2018
Warrants	May 2015	**390,000**	0.25	May 2018
Warrants	September 2015	**1,350,000**	0.25	September 2018
Warrants	November 2015	**4,214,125**	0.25	November 2018
Warrants	April 2016	**8,128,813**	0.15	April 2018
Warrants	June 2016	**500,000**	0.20	June 2018
Warrants	November 2016	**732,920**	0.20	November 2018
Warrants	January 2017	**1,114,286**	0.11	January 2019
Warrants	January 2017	**9,000,000**	0.24	January 2019
Warrants	January 2018	**180,000**	0.17	January 2020
	TOTAL WARRANTS	**27,027,644**		
Warrants	January-18	**180,000**	0.16	January-20
Warrants	April-18	**93,750**	0.40	May-21
Warrants	June-18	**1,280,000**	0.07	June-21
Warrants	Septeber-18	**6,977,988**	0.05	February-20
Warrants	February-19	**10,364,640**	0.10	February-20
Warrants	February 19	**900,000**	0.10	February 20
	TOTAL WARRANTS	**19,796,378**		

As at March 31, 2019, the Group had 19,796,378 warrants outstanding (relating to 19,796.378 shares) and exercisable at a weighted average exercise price of CAD$0.08 per share with a weighted average life remaining of 1.44 year.

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

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

16. Trade and other payables

	2019 CAD $'000	2018 CAD $'000
Trade payables	10,990	7,821
Other payables	290	756
Accrued interest	835	661
Total trade and other payables	12,115	9,238

17. Loans

Loans	**2019**	**2018**
	CAD $'000	**CAD $'000**
Loan payable - current	3,776	237
Loan payable – non-current	3,417	4,949
Total	**7,193**	**5,186**

	2019	**2018**
Loans – current	**CAD $'000**	**CAD $'000**
As at 1 April	237	973
Transfer from non-current	3,747	(367)
Repayments	(208)	(369)
As at 31 March	**3,776**	**237**

	2019	**2018**
Loans – non current	**CAD $'000**	**CAD $'000**
As at 1 April	4,949	4,527
Loan receipt	2,109	133
Transfer to current	(3,747)	367
Foreign exchange	106	(78)
As at 31 March	**3,417**	**4,949**

a) USD loan payable

As at March 31, 2019, the Group was indebted to a third party lender for a USD$1,485k (CAD$1,982) (March 31, 2018 - USD$1,485k (CAD$1,914k)) loan payable, bearing fixed interest at 10% per annum.

The President, CEO and Director of the Group, has provided a personal guarantee to the lender in respect of the repayment of the USD Loan by the Group and the final payment of approximately USD$1,485k. The final payment of approximately USD$1,485k is repayable on July 31, 2019.

As at March 31, 2019, CAD$Nil (March 31, 2018 – CAD$1,914k) of principal is classified as a non-current liability and CAD$733k (March 31, 2018 – CAD$538k) of accrued interest is included in trade and other payables.

b) Euro bank debt

On August 6, 2015, the Group obtained a €220k loan (CAD$349k) from the GBM Banca of Rome. The loan is unsecured, bears fixed interest at 7% per annum and is repayable in 60 monthly payments of principal and interest until August 6, 2020.

As at March 31, 2019, the principal balance of the loan was €98k (CAD$147k) (March 31, 2018 - €117k (CAD$186k)) of which €47k (CAD$70k) is classified as a current liability and €52k (CAD$77k) is classified as long-term.

c) Euro bank debt

On December 17, 2015, the Group obtained a €200k loan (CAD$318k) from Credito Valtellinese Bank of Tortona. The loan is unsecured, bears fixed interest at 4.5% per annum and is repayable in 42 monthly payments of principal and interest until July 17, 2019.

As at March 31, 2019, the principal balance of the loan was €20k (CAD$31k) (March 31, 2018 - €80k (CAD$127k)) of which CAD$31k is classified as a current liability and CAD$nil is classified as long-term.

d) USD $320,000 General line of credit agreement

On April 5, 2017, the Group's wholly-owned subsidiary, Zenith Aran Oil Company Limited, entered into a general line of credit agreement with Rabitabank Open Joint Stock Company ("**Rabitabank**") up to an amount of US$320k (CAD$436k), for industrial and production purposes. The loan drawn down in one tranche and as at April 6, 2017, it was fully drawn down. Rabitabank can postpone or suspend the facility if there is a decline in oil production under the REDPSA of more than 30% from production levels as at the date of first drawdown, or if the REDPSA is terminated.

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

On July 6, 2017, the terms of the repayment of the US$320k (CAD$436k) credit agreement were amended and the first repayment of the principal of US$80k was postponed to the end of July.

On July 31, 2017 US$20k (CAD$21k) was repaid and the balance of US$60k (CAD$63k) was agreed to be repaid on September 1, 2017. On July 31, 2018, US$40k (CAD$52k) was repaid. A subsequent credit committee decision taken in September 2017 amended the payment terms of the loan. Zenith Aran Oil Company Limited will pay interest on a monthly basis and the principal total amount of US$40k has been paid on September 30, 2018. The balance of the principal amount will be repaid at a new maturity date of April 6, 2019. Based on credit committee decision taken on 18th of April 2019 the payment of principal amount US$280K postponed for one year until 6th of April 2020.

As of March 31, 2019, the outstanding principal amount was US$282K (CAD$376k) (March 31, 2018 - USD$280k (CAD$360k)) and it was classified as a non-current liability.

e) USD $200,000 General line of credit agreement

On April 12, 2017, Zenith Aran entered into a general line of credit agreement with Rabitabank up to US$200k (CAD$272k). This Credit Agreement bears interest at a rate of 10% per annum. The loan was granted for one-year period and the principal amount of the loan will be paid at the end of the period. The amount of interest is repayable monthly. The loan is guaranteed by the Group. In March 2018, the repayment of the principal amount (US$200k) was extended by 15 months until July 12, 2019. The interest is payable on a monthly basis and the principal amount will be paid in five quarterly installments of US$40k.

As of March 31, 2019, the amount of US$187k (CAD$249k) (March 31, 2018 - USD$200k (CAD$255)) was classified as a current liability.

f) Swiss loan CHF 837,500

On March 30, 2017, the Group acquired the Swiss based company Altasol SA, and assumed a loan subscribed for the former owner on December 21, 2015 for the initial amount of CHF838k (CAD$1,161k). The loan bears interest at a rate of 2.32% per annum. The loan is repayable in anticipated quarterly tranches of CHF13k (plus accrued interest) (CAD$17k) and the maturity date is July 7, 2022.

As at March 31, 2019, the principal balance of the loan was CHF687.5k (CAD$922k) of which CAD$67k was classified as a current liability and CAD$855k was classified as non-current liability.

g) Swiss loan CHF 1,000,000

On March 30, 2017, the Group acquired the Swiss based company Altasol SA, and assumed a loan subscribed by the former owner on December 21, 2015 for the initial amount of CHF1,000k. The loan bears interest at a rate of 2.2% per annum. The loan is repayable July 02, 2019 (plus accrued interest).

As at March 31, 2019, the principal balance of the loan was CHF1,000k (CAD$1,341k) (March 31, 2018 - CHF1,000k (CAD$1,350)) and is classified as a current liability (March 31, 2018 – non-current liability).

h) Convertible loan USD 1,500,000

On September 5, 2018, the Company entered into a US$1,500,000 unsecured convertible loan facility with a term of 18 months starting from August 30, 2018. Zenith shall pay interest on the outstanding amount of the convertible loans at the rate of 0% per annum. The Facility includes an initial immediate advance of US$1,300,000 and a further advance of US$200,000, to be provided at a later time and only at the discretion of the Lenders. Under the terms of the Facility the Company issued the lenders 6,977,988 share purchase warrants to subscribe for the equivalent number of common shares of no par value in the share capital of the Company at a price of £0.0505 per Common Share on subscription at any time from December 30, 2018 to February 28, 2020 subject to the articles of the Company and the terms and conditions of the convertible loans.

i) Convertible loan GBP 1,000,000

On January 7, 2019, the Company entered into a new unsecured convertible loan facility for an aggregate total amount of up to £1 million with a consortium of lenders. The loan facility has a term of 24 months and the Company shall pay interest on the outstanding amount of the loan facility at the rate of 8% per annum. The loan facility is repayable on January 15, 2021. With certain limitations, the Convertible Loan Notes ("CLNs") will be convertible into Common Shares of the Company at any time after the expiry of a 120 day lock up period from the date of issue of the CLNs, January 15, 2019, as required under applicable Canadian securities laws.

j) Overdraft

The group has an overdrawn balance in one bank account of CAD$ 36k (March 31, 2018 – CAD$ nil). The overdraft is repayable on demand.

18. Non convertible bond and notes

Non convertible bond and notes	**2019**	**2018**
	CAD $'000	**CAD $'000**
Current	199	407
Non-current	4,759	-
Total	**4,958**	**407**

Non convertible bond and notes

	CAD $'000
Balance – April 1, 2017	**385**
Decretion	(5)
Foreign currency translation	27
Balance – March 31, 2018	**407**
Interest	14
Issue of notes	153
Loan notes	4,759
Repayment of bonds	(375)
Balance – March 31, 2019	**4,958**

(a) Bond

As of March 31, 2019, the outstanding balance of the Series A Bond (12% p.a.) was CAD$33k and the total amount held as a current liability; the amount relates to accrued interest, which was fully repaid on April 2019.

(b) Mini Notes

On March 25, 2019 the Group announced that it issued unsecured notes (the "**Notes**") for a total amount of £90k (CAD$153k) with 900,000 share purchase warrants attached (the "**Warrants**"). Each Warrant will entitle the holder to acquire one common share of no-par value ("**Common Share**") in the capital of Zenith, at a strike price of CAD$0.10 (approximately £0.056) per Common Share, for a period of 12 months following the closing date.

Unless permitted under applicable Canadian securities legislation, holders must not trade the Notes, or the Warrants underlying the Notes, in Canada before the date that is four months and a day after the issue date of February 15, 2019. The formalisation of the process was subject to approval by the TSX Venture Exchange.

The maturity date of the Notes is July 31, 2019, and they carry an interest of 15% per annum, payable upon the maturity of July 31, 2019, computed on the basis of a 360-day year composed of twelve 30-day months.

(c) Loan Notes

During the year the Group, as announced in September 2018 and January 2019, issued Loan Notes to finance its development activities in Azerbaijan for a total amount of CAD$4,759k, with the duration of 2 years. The maturity date of the Notes is 20 December 2021, and they carry an interest charge of 8% per annum, payable upon the maturity of 20 December 2021.

At the year ended March 31, 2019, CAD$14k is classified as a current liability and CAD$4,759 is classified as long-term.

19. Deferred consideration payable

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

Compensatory oil

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

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

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

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

Capital Costs

Total capital expenditures of USD$749m (USD$ 599m net to the Company) have been estimated to redevelop the oil fields in the block. During 2019 and 2020, it is estimated that US$ 3.5m will be spent upgrading the gathering system and central facilities in Azerbaijan to improve safety, efficiency and handle higher production rates..

From 2020 through 2024, 3D seismic programmes are expected to be run to fully delineate the various pools and formations to optimize the drilling locations.

Development drilling will commence in 2019 and continue to 2035. It has been estimated that each well in the proved case will cost USD$ 4.3m. This cost will include the direct cost of materials, fuel, salaries, etc to drill the well as well as an allocation for the purchase of one drilling rig, well completion and tie in. Easch well in the proved plus probable case is expected to cost USD$ 5m. In addition to the costs anticipated for the proved wells, wells in proved plus probable category have an additional allocation fo the periodic leasing or contracting of additional drilling rigs and expansion and modernization of the field facilities.

In all, 147 wells are expected to be drilled, 58 of these are anticipated to be horizontal wells (legs). 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 USD$ 5m.

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% of all capital costs. Contributions to the abandonment fund can be recovered as operating costs.

DEFERRED CONSIDERATION PAYABLE

	2019 CAD$'000	2018 CAD$'000
Compensatory Oil		
Current portion	330	271
Non-Current portion	5,094	5,173
Capital costs		
Current portion	346	318
Non-Current portion	478,084	478,443
As of 31 March	**483,854**	**484,205**
Deferred condideration payable current	676	589
Deferred consideration payable non-current	483,178	483,616
Total	**483,854**	**484,205**

The deferred consideration liability has been measured at the present value of contracted future cash flows. The value and timing of contracted future cash flows has been included in note 24 (b).

20. Decommissioning provision

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Group's oil and gas properties:

	2019 CAD $'000	2018 CAD $'000
Balance – beginning of year	**9,140**	**7,980**
Accretion	363	399
Foreign currency translation	(414)	761
Balance – end of year	**9,089**	**9,140**

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:

	2019	2018
Undiscounted cash flows – uninflated	CAD $8 million	CAD $8 million
Undiscounted cash flows - inflated	CAD $8 million	CAD $8 million
Risk free rate	3.4%	3.4%
Inflation rate	1.4%	1.4%
Expected timing of cash flows	13.5 years	14.5 years

The timings of the cash flows depend on the capital expenditure incurred and the development of assets in each concession. Each concession has a license for a set number of years, however, the licenses could be extended for longer periods if the operator incurs capital expenditure and develops the area. The application process starts after a license is not extended or when the reserves of a particular concesion have been fully extracted.

21. Earnings per share

		2019 CAD $'000		2018 CAD $'000
Net loss		(9,761)		(9,918)
Basic weighted average number of shares		227,509		132,880
Potential dilutive effect on shares issuable under warrants		n/a		n/a
Potential diluted weighted average number of shares		n/a		n/a
Net earnings per share – basic (1)	$	(0.04)	$	(0.07)
Net earnings per share – diluted		(0.04)		(0.07)

(1) The Group did not have any in-the-money convertible notes, warrants and stock options during the years ended March 31, 2019 and 2018. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

The basic and diluted loss per share for 2019 are the same as there are no dilutive effects on earnings as the effect of the exercise of share options would be to decrease the earnings per share. Details of share warrants and options that could potentially dilute earnings per share in future years are set out in Note 15.

22. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. The related party transactions during the year ended March 31, 2019 and 2018 not disclosed elsewhere in these consolidated financial statements are as follows:

a) During the year ended March 31, 2019, the Company's Chief Executive Officer and President, Mr. Andrea Cattaneo, purchased a total amount of 11,665,497 common shares of no par value in the capital of the Company at an average price of CAD$0.06185 per common share (approximately £0.03558), and a total amount of CAD$722k (approximately £415k).

b) On May 1, 2018, the Company issued Mr. Andrea Cattaneo 1,123,068 common shares ("Salary Sacrifice Shares") at an average price of CAD$0.165 (approximately £0.094) for the period from April 1, 2017 until March 31, 2018. This issue was subsequent to Mr. Cattaneo's proposal to swap his full salary for the next twelve months, effective from April 1, 2017, in exchange for common shares in the Company.

   On April 5, 2018 the Company announced that the 2017 Salary Sacrifice Proposal submitted by Mr. Andrea Cattaneo, Chief Executive Officer & President of the Company, had received 99.98 per cent shareholder approval at its AGM held on March 29, 2018.

   This approved proposal stated that the Salary Sacrifice Shares were issued on a quarterly basis (with the first batch to include all Salary Sacrifice Shares accrued since April 1, 2017) at a price that was the highest between: (i.) the average price at which the Company's common shares traded during the period, based on the mid-market closing price on the London Stock Exchange on each trading day, plus 15 per cent, and (ii.) the discounted market price on the TSXV at the time the Salary Sacrifice Shares are issued.

c) On October 2, 2018, the Company's Chief Executive Officer and President, Mr. Andrea Cattaneo advised the Company that he had swapped his salary for the first two quarters of the 2019 financial year in exchange for common shares in the capital of Zenith ("Salary Sacrifice Shares").

As a result, on October 1, 2018, the Company issued Mr. Cattaneo 2,225,941 Salary Sacrifice Shares at an average price of CAD$0.108 for the period from April 1, 2018, to June 30, 2018, and at an average price of CAD$0.069 for the period from July 1, 2018, to September 30, 2018.

d) Following the aforementioned dealings, as of March 31, 2019, Mr. Cattaneo was directly beneficially interested in a total of 21,007,911 (March 31, 2018 – 4,595,116) Common Shares in the capital of the Company, representing 6.72 per cent of the total issued and outstanding common share capital of the Company admitted to trading on the Main Market of the London Stock Exchange, and representing 7.25 per cent of the total issued and outstanding common share capital of the Company admitted to trading on the TSX Venture Exchange and Merkur Market of the Oslo Børs.

e) As of March 31, 2019, Mr. Cattaneo was indirectly interested in a total of 1,250,000 Common Shares, today representing 0.55 per cent of the Company's issued and outstanding common share capital admitted to trading on the Main Market of the London Stock Exchange, and representing 0.48 per cent of the total issued and outstanding common share capital of the Company admitted to trading on the TSX Venture Exchange and Merkur Market of the Oslo Børs.

f) On July 6, 2018, Mr. Andrea Cattaneo agreed to act as a third-party guarantor in support of the Company. On July 5, 2018, Mr. Cattaneo pledged a total of 4,542,187 common shares in the capital of the Company, in which he has a direct beneficial interest, as collateral for the two-year non-convertible loan facility signed by the Company on May 24, 2018, for a total amount of up to US$2,000,000. On December 19, 2018, the loan was repaid by the Company and the pledge has not terminated, in respect of the security English law, until the expiring of the lock-up period.

g) During the year ended March 31, 2019, Mr. Cattaneo granted some guarantees (the "**Guarantees**") in favor of the Zenith for a total amount of £1,901k - as listed below:

I. Surety guarantee provided in favor of a Chinese lender for the outstanding amount of USD 1,485k;

II. Surety guarantee provided on January 18, 2018, by cheque drawn on Banca Passadore & C. n. 7001108545-02, in favor of SMAPE S.R.L for the total amount of USD 279k;

III. Surety guarantee provided on April 3, 2018, for the total amount of GPB 237.5k represented by a financial collateral of no. 3,571,429.00 shares of the price at GBP 0,065 per each (as of May 3, 2018, quote);

IV. Surety guarantee provided on July 5, 2018, for the total amount of GPB 310k represented by a financial collateral of no. 5,000,000 shares of the price at GBP 0,062 per each (as of May 11, 2018, quote).

The Board defined the remuneration for Guarantees in favor of Mr. Cattaneo, and the associated terms and procedures for the payment.

j) In 2018 Zenith explored the possibility of acquiring an entity in Indonesia. Zenith carried out a due diligence of the Proposed Acquisition's financial accounts, which had been used as reference for pricing the Proposed Acquisition under the Binding Option agreement and as a result of the due diligence certain discrepancies were identified. At that point, Zenith proposed a re-negotiation of the terms, but the ultimate vendor of the Proposed Acquisition in Indonesia did not agree to the new proposed terms.

Zenith's Board of Directors therefore resolved not to proceed with completion of the Proposed Acquisition due to the vendor's refusal to renegotiate the total consideration. As aforementioned, the accounting due diligence process evidenced negative discrepancies largely exceeding 5% of the book values declared in the Proposed Acquisition's financial statements dated February 28, 2018.

In addition, the vendor and Zenith took opposing views regarding the return of the USD$100,000 deposit advanced by Andrea Cattaneo, Chief Executive Officer and President of the Company, in good faith and support of the Proposed Acquisition. Zenith and Andrea Cattaneo considered the retention of the deposit by the vendor to be contrary to the mutually agreed terms and the parties' intention. On January 14, 2019, the Board of Directors of Zenith, considered legal proceedings against the vendor but, due to potential very high legal costs and the additional time and travel costs required to complete such proceedings, unanimously agreed that litigation proceedings should not be pursued, and the deposit was written-off being reimbursed to Mr. Cattaneo by the Company.

k) During the year ended March 31, 2019, General Transaction Inc., represented by its Chief Executive Officer and Chairman Mr. Sergey Borovskiy, a Director of the Company, granted Zenith a loan of CAD$Nil (2018 - CAD$127,878). The maturity date of the loan, plus accrued interest at the yearly rate of 15%, is March 31, 2020. The balance outstanding at March, 31 2019 is CAD$127,878 (2018 - CAD$127,878).

l) In the year ended March 31, 2019, Mr. Erik Larre, a Director of the Company, granted Zenith a loan of CAD$ Nil (2018 - Euro 20,000 (CAD$31,598)). The principal is repayable upon request and accrued no interest. The balance outstanding at March 31, 2019 is CAD$31,598 (2018 - CAD$31,598).

m) In the year ended March 31, 2019, Zenith granted Leonardo Energy Consulting S.r.l., an entity where Zenith holds a 48% interest on its share capital, a loan of CAD$5,393 (2018 - CAD$19,528), to develop its activities. The loan is unsecured, interest free and repayable on demand. The balance outstanding at March 31, 2019 is CAD$24,921 (2018 – CAD$19,528).

n) During the year ended March 31, 2019, the Company paid a total of CAD$24,272 (2018: CAD$Nil), to Ippolito Cattaneo, the son of Mr. Cattaneo, Chief Executive Officer and President of the Company, as consulting fees for investor relations work during the period from 1 January 2017 up to January 2018. The balance outstanding at March 31, 2019 is CAD$Nil (2018 – CAD$Nil).

23. Commitments and contingencies

Covenants and commitments under the REDPSA

Production level achievements

In accordance with the REDPSA, the Company has an obligation to achieve certain production levels not later than the expiry of two years from the date of SOCAR's approval of the rehabilitation and production program within ninety consecutive days. An average daily rate of crude oil production should be at least 2 times the average daily rate of crude oil production in 2015 which was about 44 tons for four consecutive calendar quarters. Average daily production of crude oil was 34 tons and 37 tons as at March 31, 2019 and 2018, respectively. The Company has not reached the required production level as at March 31, 2019.

According to the REDPSA, a failure to meet the above requirement would constitute a material breach of the REDPSA and may result in the termination of the REDPSA, and any costs incurred by the Company with respect to the contract area since inception would not be recoverable.
The Company has conducted successful geological studies during the last two years to evaluate the geological structure of the Muradkhanli, Jafarli and Zardab fields. Additionally, the management plans to start active drilling program in upcoming months, which will contribute increase of production level. The management believes that the future investment plans and maintenance works will allow the Company to reach the required level of production in the future.

In accordance with the REDPSA, the Company shall have the obligation to carry, in proportion to its participating interests, one hundred percent of SOA's participating interest as follows:

For petroleum operations in the Contract Rehabilitation Area: from the effective date of REDPSA and until the end of period of four consecutive calendar quarters in which the average daily rate of crude oil production from the Contract Rehabilitation Area will be at least 2 times the average daily rate of crude oil production from the Contract Rehabilitation Area in 2015 ("Carry 1");

For petroleum operations in the Contract Exploration Area incurred in connection with the performance of the Minimum Exploration Work Program ("MEWP") and the work defined for the Additional Exploration Period (if the Company proceeds thereto): from the effective date and until the date of approval of the Development Program ("Carry 2"). The carry periods have not ended as at the reporting date.

World Market Oil contract

The Company entered into a sales agreement with SOCAR whereby the Company, and SOA REDPSA committed to sell their full entitlements of crude oil produced in the REDPSA contract area to SOCAR at market prices. Accordingly, the Company sold all the crude oil produced from the rehabilitation area of the REDPSA to SOCAR.

Compensatory Crude Oil ("CCO")

The Company 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 barrels) of crude oil, after which no further CCO is required.

The Company delivered to SOCAR the amount of CCO equal to 1,816 tons and 1,564 tons as of March 31, 2019 and 2018, respectively. The Company has an obligation to deliver additional 41,174 tons contingent to future production volume as at March 31, 2019 (2018: 42,990 tons).

As at the reporting period, the Company could not measure the amount of obligation with sufficient reliability regarding the future production volumes and cost estimation.

Other commitments

In accordance with the provisions of the REDPSA, title to fixed and moveable assets will be transferred to SOCAR upon the earlier of the end of the calendar quarter following the date when all costs incurred by the Company are recovered or the termination of the REDPSA.

Commitment under Environmental Action Plan

Under the provisions of the REDPSA, the Company is only liable for those direct losses or damages incurred by third parties (other than any government authorities of the Republic of Azerbaijan) or arising out of any environmental pollution determined by the appropriate court of the Republic of Azerbaijan to have been caused by the Company.

A failure to meet any of the requirements stated in the preceding paragraphs would constitute a material breach of either the REDPSA and could result in the termination of the REDPSA, and any costs incurred by Company with regard to the contract areas since inception would not be recoverable. Management believes that it is currently in compliance with all provisions of the REDPSA and other contracts as at the date of these financial statements.

Purchase commitments

In September 2018, the Company's fully owned subsidiary, Zena Drilling Limited, signed a purchase agreement for the acquisition of a BD-260 drilling rig with Hydro Drilling S.r.l. The rig was refurbished and assembled by B Robotics W S.r.l. The total consideration for the purchase and the refurbishment amountes to €2,150,000.

24. Financial risk management and financial instruments

Financial assets	**March 31, 2019 CAD $'000**	**March 31, 2018 CAD $'000**
Financial assets held at amortised cost	5,413	1,908
Cash and cash equivalents	3,058	2,497
Total financial assets	8,471	4,405

2019 **Financial liabilities**	**Financial liabilities at amortised cost CAD $'000**
Trade and other payables	12,115
Loans	7,193
Non-convertible bond and notes	4,958
Deferred consideration	483,854
Total financial liabilities	508,120

2018 **Financial liabilities**	**Financial liabilities at amortised cost CAD $'000**
Trade and other payables	9,238
Loans	5,186
Non-convertible bond and notes	407
Deferred consideration	484,205
Total financial liabilities	499,036

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 March 31, 2019.

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

Zenith's principal financial instruments are cash and deposits, and also trade and other receivables. These instruments are used for meeting the Group's requirement for operations.

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

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Group's maximum credit risk exposure is limited to the carrying amount cash of CAD $3,058k (2018 – CAD $2,497k) and trade and other receivables of CAD $5,248k (2018 – CAD $1,885k).

Deposits 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:

	March 31, 2019 CAD $'000	**March 31, 2018 CAD $'000**
Oil and natural gas sales	1,321	1,623
Stamp tax and other tax withholdings	-	31
Goods and services tax	41	19
Other	4,051	212
	5,413	1,885

The receivables related to the sale of oil and natural gas are due from large companies who participate in the oil and natural gas industry in Argentina and Italy. Oil and natural gas sales receivables are typically collected in the month following the sales month.

The Group considers its receivables to be aged as follows:

	March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
Current	1,238	1,549
90 + days	124	124
	1,362	1,673

b) Liquidity risk

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

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

As of March 31, 2019, 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 2020 CAD $'000	Due on or before 31 March 2021 CAD $'000	Due after 31 March 2021 CAD $'000
Trade and other payables	12,115	12,115	12,115	-	-
Loans	7,193	8,131	6,006	1,175	950
Non-convertible bond	4,958	5,171	269	76	4,826
Deferred consideration	483,854	1,143,463	45,421	65,661	1,032,380
	508,120	1,168,880	63,811	66,912	1,038,156

c) Foreign currency risk

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

	Closing rate		Average rate	
	2019	2018	2019	2018
US dollars	1.3347	1.2892	1.3120	1.2649
Euro	1.4971	1.5884	1.5186	1.5515
Swiss Franc	1.3408	1.3502	1.3245	1.3328
British Pound	1.7382	1.8060	1.7218	1.7588

The following represents the estimated impact on net (loss)/income of a 10% change in the closing rates as at March 31, 2019 and 2018 on foreign denominated financial instruments held by the Group, with other variables such as interest rates and commodity prices held constant:

	March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
US dollars	63	62
Euro	18	16
Swiss Franc	226	235
British Pound	-	-
	307	313

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 March 31, 2019, a 5% change in the price of natural gas produced in Italy would represent a change in net loss for the year ended March 31, 2019 of approximately CAD $7k (2018 – CAD $7k) and a 5% change in the price of electricity produced in Italy would represent a change in net loss for the year ended March 31, 2019 of approximately CAD $35k (2018 – CAD $29k).

As at March 31, 2019, a 5% change in the price of crude oil produced in Azerbaijan would represent a change in net loss for the year ended March 31, 2019 of approximately $219k (2018 – $210k).

e) Interest rate risk

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

25. Capital management

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

	March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
Working capital	(1,401)	5,621
Long-term debt	3,417	4,949
Shareholders' equity	569,081	571,894

The Group's cash flows from its Azerbaijan and Italian operations will be needed in the near term to finance the operations and repay vendor loans. Zenith's principal source of funds will therefore remain the issuance of equity. The Group's ability to raise future capital through equity is subject to uncertainty and the inability to raise such capital may have an adverse impact on the Group's ability to continue as a going concern. The Group is not subject to any externally imposed capital requirements.

26. Net debt reconciliation

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

	March 31, 2019 CAD $'000	March 31, 2018 CAD $'000
Cash and cash equivalents	3,058	2,497
Loans – repayable within one year	(3,776)	(237)
Loans – repayable after one year	(3,417)	(4,949)
Non-convertible bond – repayable within one year	(199)	(407)
Non-convertible bond – repayable after one year	(4,759)	-
	(9,093)	(3,096)

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

	Cash	Loans due within one year	Loans due after one year	Non-convertible bond due within one year	Non-convertible bond due after one year	Total
Net debt	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**	**CAD $'000**
April 1, 2018	**2,497**	**(237)**	**(4,949)**	**(407)**	**-**	**(3,096)**
Issue of non-convertibles bonds	1,099	-	-	(154)	(945)	-
Interest on non-convertible bonds	-	-	-	(13)	-	(13)
Bonds in treasury	-	-	-	-	(3,814)	(3,814)
Repayment of non-convertible bonds	(375)	-	-	375	-	-
Transfer from current to non-current	-	(3,747)	3,747	-	-	-
Issue of convertible loans	-	-	(2,109)	-	-	(2,109)
Repayment of loans	(208)	208	-	-	-	-
Foreign exchange	-	-	(106)	-	-	(106)
Net cash flow	45	-	-	-	-	45
March 31, 2019	**3,058**	**(3,776)**	**(3,417)**	**(199)**	**(4,759)**	**(9,093)**

27. Operating segments

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

The Group has four reportable segments which are as follows:

- Italy, which commenced gas operations following the acquisition of assets in June 2013;
- Azerbaijan, which was acquired during the 2018 financial year; and,
- Other, which includes corporate assets and the operations in the Canadian, Swiss, Argentina and US entities.

YEAR 2018	Azerbaijan CAD $000	Italy CAD $000	Other CAD $000	Total CAD $000
Property and equipment	1,066,089	9,194	2,162	1,077,445
Other assets	1,446	805	2,772	5,023
Total liabilities	493,669	8,588	8,317	510,574
Capital Expenditures	3,727	87	2,157	5,971
Revenue	4,190	737	92	5,019
Operating and transportation	(4,758)	(398)	(4)	(5,160)
General and Administrative	(1,264)	(436)	(5,067)	(6,767)
Depletion and depreciation	(1,636)	(585)	-	(2,221)
Finance and other expenses	(66)	(404)	(319)	(789)
Segment loss	**(3,534)**	**(1,086)**	**(5,298)**	**(9,918)**

YEAR 2019	Azerbaijan CAD $000	Italy CAD $000	Other CAD $000	Total CAD $000
Property and equipment	1,064,988	8,369	6,281	1,079,638
Other assets	1,058	1,025	6,966	9,049
Total liabilities	492,921	8,401	18,285	519,607
Capital Expenditures	719	74	4,412	5,205
Revenue	5,733	834	-	6,567
Operating and transportation	(4,370)	(210)	(320)	(4,900)
General and Administrative	(1,528)	(405)	(6,024)	(7,957)
Depletion and depreciation	(1,857)	(375)	(50)	(2,283)
Finance and other expenses	(68)	(380)	(741)	(1,188)
Taxation	-	-	(1)	(1)
Segment loss	**(2,090)**	**(536)**	**(7,136)**	**(9,762)**

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

		2019 CAD $000	2018 CAD $000
Customer A		5,734	4,190
Customer B		691	599

28. Controlling party

At as of the end of the financial year ending March 31, 2019, the Directors do not consider there to be a controlling party.

29. Events subsequent to the year end

a) On April 2, 2019, the Group announced that it had completed two offerings with a consortium of private and institutional investors and raised an aggregate total amount of approximately £1,020k (approximately CAD$1,790k).

The Group used the aggregate proceeds of the Financings to provide additional funding for its existing well deepening programme in Azerbaijan and for general working capital.

Canadian Financing
Zenith issued a total of 20,000,000 common shares of no par value in the capital of the Group ("Common Shares") at a price of CAD$0.05 in connection with the Canadian Financing to raise gross proceeds of CAD$1,000k (approximately £570k).

UK Financing
Zenith issued a total of 17,647,059 Common Shares of no par value in the capital of the Group at a price of £0.0255 (approximately CAD$0.045) in connection with the UK Financing and raised gross proceeds of £450k (approximately CAD$790k).

b) On May 3, 2019 the Group announced that it had completed a placing of new common shares of no par value in the capital of the Group ("**Common Shares**") in the United Kingdom (the "**Financing**").

Zenith issued a total of 14,334,602 Common Shares at a price of £0.028 (approximately CAD$0.049) in connection with the Financing to raise gross proceeds of £401k (approximately CAD$703k).

The Group used the proceeds of the Financing to purchase a Top Drive system and additional equipment for the mud system of the BD-260 drilling rig to ensure increased performance during well C-37 drilling operations.

Total Voting Rights
In accordance with the Financial Conduct Authority's Disclosure Guidance and Transparency Ruls, the following information following Admission of the Financing Common Shares:

Class of share	Total number of shares	Number of voting rights per share	Total number of voting rights per class of share
Common shares in issue and admitted to trading on the Main Market of the London Stock Exchange	258,404,153	1	258,404,153
Common shares in issue and admitted to trading on the TSXV	312,408,725	1	312,408,725
Common shares in issue and admitted to trading on the Merkur Market of the Oslo Børs	312,408,725	1	312,408,725