

Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Consolidated Financial Statements

As at and for the years ended March 31, 2015 and 2014 (Restated)

Managements' Responsibility

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that the transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Audit Committee and management to discuss their audit findings.

(signed) "Andrea Cattaneo"
President and Chief Executive Officer

(signed) "Luigi Regis Milano"
Chief Financial Officer

July 23, 2015

Calgary, Alberta

Independent Auditors' Report

To the Shareholders of Zenith Energy Ltd.:

We have audited the accompanying consolidated financial statements of Zenith Energy Ltd. (formerly Canoe International Energy Ltd.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2015 and 2014 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Zenith Energy Ltd. and its subsidiaries as at March 31, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Zenith Energy Ltd. has not yet achieved profitable operations, has a working capital deficit of \$3,407,115 and an accumulated deficit of \$5,971,478. These conditions indicate the existence of material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Without modifying our opinion, we draw attention to Note 6 to the consolidated financial statements, which explain that the consolidated financial statements for the year ended March 31, 2014 have been restated from those on which we originally reported on June 23, 2014.

Calgary, Alberta
July 23, 2015

MNP LLP
Chartered Accountants

MNP

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at March 31		2015	2014
	Note	\$	\$
			Restated Note 6
ASSETS			
Current assets			
Cash		936,499	711,248
Marketable securities	7	236,993	378,460
Trade and other receivables	25	713,031	1,215,913
Inventory		65,419	48,397
Prepaid expenses		247,384	251,714
		2,199,326	2,605,732
Non-current assets			
Property and equipment	9	16,693,522	19,253,514
Prepaid property and equipment insurance	10	355,407	549,497
		17,048,929	19,803,011
Total assets		19,248,255	22,408,743
LIABILITIES			
Current liabilities			
Trade and other payables	25	2,234,573	2,474,178
Oil share agreement	11	1,004,690	875,727
Note payable	12	200,499	374,068
Loan payable	13	2,166,679	1,888,221
Convertible notes	14	-	1,265,789
Derivative liability	14	-	1,101
		5,606,441	6,879,084
Non-current liabilities			
Loan payable	13	433,336	377,644
Convertible notes	8	582,646	-
Derivative liability	8	159,322	-
Decommissioning obligation	15	5,779,799	7,277,681
Deferred taxes	16	2,397,623	2,298,132
Total liabilities		14,959,167	16,832,541
SHAREHOLDERS' EQUITY			
Share capital	17	8,686,556	7,151,893
Warrants	18	1,245,708	487,257
Contributed surplus		2,138,583	1,744,326
Accumulated other comprehensive loss		(1,810,281)	(212,077)
Deficit		(5,971,478)	(3,595,197)
Total shareholders' equity		4,289,088	5,576,202
Total liabilities and shareholders' equity		19,248,255	22,408,743

Going concern (Note 1)

Subsequent events (Note 27)

Approved by the Board of Directors

(Signed) "Erik Larre", Director

(Signed) "Jose Ramon Lopez-Portillo", Director

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

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian dollars)

For the years ended March 31		2015	2014
	Note	\$	\$
			Restated Note 6
Revenue			
Oil and gas revenue		4,784,438	4,108,690
Royalties		(345,132)	(420,837)
		4,439,306	3,687,853
Expenses			
Operating		1,760,171	1,940,149
Transportation		52,896	53,567
General and administrative		2,695,386	2,379,792
Foreign exchange		253,646	482,381
Loss on sale of marketable securities	7	135,910	-
Fair value adjustment on marketable securities	7	161,560	30,686
Loss on conversion of convertible notes	14	82,434	-
Fair value adjustment on derivative liability	14	(513,941)	(55,653)
Depletion and depreciation		667,915	783,974
Gain on business combination	8	-	(12,193,231)
Other expense	8	-	4,621,935
		5,295,977	(1,956,400)
Income (loss) from operations		(856,671)	5,644,253
Net finance expense	21	(1,420,119)	(767,383)
Net income (loss) before tax		(2,276,790)	4,876,870
Income tax (provision) reduction	16	(99,491)	1,441,647
Net income (loss)		(2,376,281)	6,318,517
Exchange differences on translation on foreign operations		(1,598,204)	668,209
Comprehensive income (loss)		(3,974,485)	6,986,726
Net income (loss) per share			
Basic and diluted	20	(0.11)	0.72
Weighted average shares outstanding			
Basic and diluted	20	21,145,518	8,776,222

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Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

For the years ended March 31		2015	2014
	Note	\$	\$
			Restated Note 6
Operating activities			
Net income (loss)		(2,376,281)	6,318,517
Items not involving cash:			
Shares issued for services		-	59,586
Loss on sale of marketable securities		135,910	-
Fair value adjustment on marketable securities		161,560	30,686
Loss on conversion of convertible notes		82,434	-
Fair value adjustment on derivative liability		(513,941)	(55,653)
Depletion and depreciation		667,915	783,974
Gain on business combination		-	(12,193,231)
Other expense		-	4,621,935
Royalties on oil share agreement		-	120,562
Finance expense		1,000,124	461,986
Deferred tax provision (reduction)		99,491	(1,477,755)
		(742,788)	(1,329,393)
Foreign exchange on translation		61,362	65,233
Change in non-cash working capital	23	47,044	(539,267)
		(634,382)	(1,803,427)
Financing activities			
Repayment of notes payable		(274,642)	(87,004)
Proceeds from issue of share capital, net of share issue costs		2,147,708	217,348
Change in non-cash working capital	23	30,660	-
		1,903,726	130,344
Investing activities			
Purchase of marketable securities		(202,863)	-
Proceeds on sale of marketable securities		55,981	-
Cash received on business combination, net of cash paid		-	1,843,314
Expenditures on property and equipment		(1,170,600)	(332,117)
Change in non-cash working capital	23	299,715	565,386
		(1,017,767)	2,076,583
Change in cash		251,577	403,500
Foreign exchange effect on cash held in foreign currencies		(26,326)	(38,793)
Cash, beginning of year		711,248	346,541
Cash, end of year		936,499	711,248
Supplemental cash flow information			
Interest paid		305,531	269,303
Taxes paid		-	36,108

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Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

For the years ended March 31		2015	2014
	Note	\$	\$
			Restated
	10		Note 6
Share capital			
Balance - beginning of year		7,151,893	6,556,260
Unit private placement, net of issue costs		2,147,708	688,633
Fair value of warrants		(1,152,708)	(93,000)
Conversion of convertible notes		539,663	-
Balance - end of year		8,686,556	7,151,893
Warrants	11		
Balance - beginning of year		487,257	1,231,069
Fair value of warrants		1,152,708	93,000
Expiry of warrants		(394,257)	(836,812)
Balance - end of year		1,245,708	487,257
Contributed surplus			
Balance - beginning of year		1,744,326	907,514
Expiry of warrants		394,257	836,812
Balance - end of year		2,138,583	1,744,326
Accumulated other comprehensive loss			
Balance - beginning of year		(212,077)	(880,286)
Exchange differences on translation of foreign operations		(1,598,204)	668,209
Balance - end of year		(1,810,281)	(212,077)
Deficit			
Balance - beginning of year		(3,595,197)	(9,913,714)
Net income (loss)		(2,376,281)	6,318,517
Balance - end of year		(5,971,478)	(3,595,197)
Total equity		4,289,088	5,576,202

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

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

1. Nature of operations and going concern

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

As at March 31, 2015, the Company has a working capital deficit of \$3,407,115 (2014 – \$4,273,352) and an accumulated deficit of \$5,971,478 (2014 – \$3,595,197) since its inception, and may incur future losses in the development of its business. Current cash resources will not be sufficient to continue the exploration and development activities. These conditions indicate the existence of material uncertainties that may cast doubt on the Company's ability to continue as a going concern. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, and attain future profitable operations in Argentina and Italy. Additional financing is subject to the global financial markets and economic conditions, and volatility in the debt and equity markets. These factors have made, and will likely continue to make it challenging to obtain cost effective funding. There is no assurance this capital will be available and if it is not, the Company may be forced to curtail or suspend planned activity.

In May 2015, subject to regulatory approval, the Company completed a non-brokered private placement of 225,000 units at a price of GBP 1.00 per unit (approximately \$1.84 per unit) for gross proceeds of GBP 225,000 (approximately \$414,000). Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants (Note 27(a)).

In May 2015, the Company also repaid the note payable (Notes 12 and 27(b)) and amended the loan payable (Notes 13 and 27(c)) repayment schedule and extended the maturity date from June 1, 2016 to August 30, 2016.

In July 2015, subject to regulatory approval, the Company amended the terms of the convertible notes (Notes 8 and 27(d)) to reduce the conversion price from \$0.215 per share to \$0.125 per share and reduce the rate of interest from 9% to 5%.

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

2. Basis of presentation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in effect for the fiscal year beginning April 1, 2014.

These consolidated financial statements were authorized for issue by the Board of Directors on July 23, 2015.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

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

(b) Basis of measurement

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

(c) Presentation and functional currency

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

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

3. Significant accounting policies

a) Consolidation

Subsidiaries

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

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

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

Business combinations

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

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

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

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

Joint arrangements

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

Transactions eliminated on consolidation

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

b) Foreign currency translation

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

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

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

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

c) Cash

Cash consist of cash deposits in bank accounts.

d) Inventory

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

e) Prepaid expenses

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

f) Property and equipment

Development and production expenditures

Development and production ("D&P") assets include costs incurred in developing commercial reserves and bringing them into production, together with the exploration and evaluation ("E&E") expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Items of property and equipment, including D&P assets, are carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of an item of property and equipment, including D&P assets, have different useful

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment, including D&P assets, are determined by comparing the proceeds of disposal with the carrying amount of the item and are recognized 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 recognized only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognized in profit or loss when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of an item of property and equipment are recognized in profit or loss as incurred.

Depletion and depreciation

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, as determined by an independent reserve engineer, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office furniture and equipment is depreciated over the estimated useful lives of the assets on a declining balance basis of rates ranging from 10% to 30%. The Company assesses the method of depreciation, useful lives and residual values at least annually.

Impairment

At the end of each reporting period, the Company reviews the D&P assets for circumstances that indicate the assets may be impaired. Assets are grouped together into cash-generating units ("CGUs") for the purpose of impairment testing. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

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

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

g) Decommissioning obligation

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

Decommissioning obligations are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

h) Tax expense

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

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

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

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

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

i) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, marketable securities, trade and other payables, oil share agreement, note payable, loan payable and convertible notes. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition,

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss, unless such instruments relate to investments in equity instruments that do not have a quoted market price in an active market and cannot be reliably measured in which case the investment is measured at cost. The Company has classified cash and marketable securities as fair value through profit or loss. The carrying amount of cash approximates fair value due to its short term to maturity. The carrying amount of the marketable securities represents its fair value as the carrying amount is based on the quoted market price of the marketable securities at the statement of financial position date.

Other

Other non-derivative financial instruments, such as trade and other receivables, trade and other payables, oil share agreement, note payable and loan payable are measured at amortized cost using the effective interest method, less any impairment losses. The carrying amount of these financial instruments approximates fair value due to their short-term to maturity.

Compound financial instruments

Compound financial instruments include convertible notes which can be converted into a fixed number of common shares for a fixed amount of consideration. The compound financial instrument is bifurcated and recorded with a liability and equity component. The liability component is initially recognized as the fair value of the liability without the conversion feature. The equity component is recognized 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 amortized cost using the effective interest method and accretes up to the principal balance at maturity. The equity component is not re-measured after initial recognition. Upon conversion, the liability component is reclassified to equity and no gain or loss is recognized.

Derivative financial instruments

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

j) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

All impairment losses are recognized in the consolidated statements of income (loss) and comprehensive income (loss). An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statements of income (loss) and comprehensive income (loss).

k) Share capital

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

l) Share-based payments

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

m) Per share amounts

The Company presents basic and diluted per share data for its common shares. Basic per share amounts are calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

n) Revenue recognition

Oil and natural gas revenues are recognized when title and risks pass to the purchaser and payment is reasonably assured.

o) Finance income and expense

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

Finance expense is comprised of interest on debt, accretion of the decommissioning obligation, accretion of convertible notes, gains or losses on the fair value of the marketable securities, and other miscellaneous interest charges.

p) Leases

Payments made under operating leases are recognized in expense in accordance with the terms and conditions of the lease which typically results in payments being recognized on a straight-line basis over the term of the lease. The Company does not have any finance leases.

q) Segment reporting

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

r) Changes in accounting standards

On April 1, 2014, the Company adopted amendments to IFRS 2 Share-based Payment, IAS 24 Related Party Transactions, IAS 32 Financial Instruments: Presentation, IAS 36 Impairment of Assets, IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 21 Levies. The adoption of these amendments had no

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

impact on the amounts recorded in the consolidated financial statements for the year ended March 31, 2015.

s) **New standards and interpretations not yet adopted**

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

IFRS 3 Business Combinations

Amendments to IFRS 3 Business Combinations clarify the classification and measurement of the obligation to pay contingent consideration. The amendments are effective for business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 9 Financial Instruments

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

IFRS 11 Joint Arrangements

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IAS 24 Related Party Disclosures

Amendments to IAS 24 Related Party Disclosures expand the definition of a related party to include a management entity and related disclosures of transactions with a management entity. The amendments are effective annual periods beginning on or after July 1, 2014.

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

4. **Determination of fair values**

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

a) **Property and equipment**

The fair value of property and equipment recognized in a business combination is based on fair value at the date of acquisition. The fair value of property and equipment is the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably,

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

prudently and without compulsion. The fair value of oil and natural gas assets (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

b) Cash, trade and other receivables, trade and other payables, oil share agreement, notes payable and loan payable

The fair value of cash, trade and other receivables, trade and other payables, oil share agreement, note payable and loan payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2015 and 2014, the fair value of these balances approximated their carrying amount due to their short term to maturity.

c) Marketable securities

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

d) Derivative liability

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

e) Stock options and warrants

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

The Company did not grant any stock options as share-based payments in the years ended March 31, 2015 and 2014. The grant date weighted average fair value of warrants granted in the year ended March 31, 2015 was \$0.07 per warrant (2014 – \$0.12 per warrant), estimated using the Black-Scholes pricing model calculations based on the following significant assumptions:

	2015	2014
Risk-free interest rate	0.45% - 1.11%	1.22%
Expected volatility	75%	100%
Expected life	3 years	2 years
Dividends	nil	nil

f) Financial instruments

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

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

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

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

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

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

5. Critical accounting judgments and estimates in applying accounting policies

a) Judgments

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

Going concern

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

It is management's assessment that the going concern assumption is appropriate based on its continued ability to raise funds and amend debt terms as disclosed in Note 27.

Business combinations amended

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

Cash-generating Units

Management makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations. Based on this assessment, the Company's CGUs are generally composed of significant development areas. As at March 31, 2015 and 2014, the Company had one CGU in Argentina and one CGU in Italy. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

Impairment of oil and natural gas properties

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

Decommissioning obligations

Management uses judgment to assess the Company's legal obligations to decommission its oil and natural gas properties and restore property sites after closure. The Company's production activity is required to be in compliance with various environmental laws and regulations in Argentina and Italy. The assessment of decommissioning liabilities is based on management's understanding of the current legal and environmental requirements and third party engineering valuations.

Deferred taxes

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

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events. It is management's assessment that there are

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

no contingencies as at March 31, 2015 or 2014.

b) Estimates

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

Business combinations

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

Carrying value of oil and natural gas assets

The Company used judgment to assess, at each reporting date, whether there is an indication that an asset or CGU may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

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

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

Depletion and depreciation

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

Estimation of oil and natural gas reserves

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

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

Decommissioning obligation

Amounts recorded for the Company's decommissioning obligation requires the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures, discount rates and

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on the Company's consolidated statements of income (loss) and comprehensive income (loss) or its consolidated statements of financial position.

Stock options, warrants and derivative financial instruments

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

Deferred taxes

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

Contingencies

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

6. Restatement

Management identified the following errors related to the March 31, 2014 consolidated financial statements which were corrected retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors":

- (a) The Company used a spot-rate rather than a credit-adjusted rate in the calculation of the fair value of the decommissioning obligation of the Company's Italian assets on the acquisition date (Note 8). The restatement of the Company's March 31, 2014 consolidated financial statements for this error resulted in a \$918,361 increase in property and equipment, a \$7,580,941 reduction in decommissioning obligation, a \$2,337,308 increase in deferred tax liability, a \$326,502 reduction in accumulated other comprehensive loss and a \$5,835,492 reduction of deficit related to a corresponding increase in the gain recognized on the acquisition.
- (b) The Company did not include certain pre-acquisition capital expenditures related to the Italian assets in the business combination (Note 8). The inclusion of these pre-acquisition capital expenditures in the business combination resulted in a \$390,354 decrease in property and equipment (\$23,545 relates to foreign currency translation), a \$96,837 decrease in deferred tax liability, a \$28,224 increase in accumulated other comprehensive loss and a \$265,293 increase in deficit related to a \$4,679 decrease in depletion expense, a \$265,936 decrease in the gain recognized on the acquisition and a \$4,036 reduction in the recovery of income taxes.
- (c) Based on a change in the discount rate used in the fair value measurement of the decommissioning obligation on the date of acquisition to a long-term risk-free rate based on the expected timing of cash flows of the decommissioning obligation under IAS 37 (Note 8), there was a \$4,814,501 increase in the decommissioning obligation associated with the acquired assets (comprised of a \$4,621,935 measurement adjustment and \$192,566 of foreign exchange) and a \$1,271,032 decrease in the deferred tax liability offset by the recognition of a corresponding \$4,621,935 measurement adjustment, a \$1,271,032 increase in the deferred tax recovery and \$192,566 decrease in exchange differences on translation of foreign operations in the consolidated statements of income (loss) and comprehensive income (loss).
- (d) The Company miscalculated the year end decommissioning obligation which, combined with the impact of a revision to the long-term risk free rate, resulted in a \$2,211,931 reduction in property and equipment, a \$3,348,815 reduction in decommissioning obligation, a \$122,060 increase in deferred tax liability, a \$1,124,846 reduction in accumulated other comprehensive loss and a \$110,022 increase in deficit related to corresponding changes in depletion, accretion and deferred tax expense.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

Notes 8, 9, 15, 16, 20, 21 and 28 have been restated to reflect the adjustments described above.

Consolidated Statement of Financial Position as at March 31, 2014:

	Previously reported \$	Note	Adjustment \$	Restated \$
ASSETS				
Current assets	2,605,732		—	2,605,732
Non-current assets				
Property and equipment	20,937,438	(a) (b) (d)	918,361 (390,354) (2,211,931)	19,253,514
Prepaid property and equipment insurance	549,497		—	549,497
Total assets	24,092,667		(1,683,924)	22,408,743
LIABILITIES				
Current liabilities	6,879,084		—	6,879,084
Non-current liabilities				
Loan payable	377,644		—	377,644
Decommissioning obligation	13,392,936	(a) (c) (d)	(7,580,941) 4,814,501 (3,348,815)	7,277,681
Deferred taxes	1,206,633	(a) (b) (c) (d)	2,337,308 (96,837) (1,271,032) 122,060	2,298,132
Total liabilities	21,856,297		(5,023,756)	16,832,541
SHAREHOLDERS' EQUITY				
Share capital	7,151,893		—	7,151,893
Warrants	487,257		—	487,257
Contributed surplus	1,744,326		—	1,744,326
Accumulated other comprehensive loss	(1,442,635)	(a) (b) (c) (d)	326,502 (28,224) (192,566) 1,124,846	(212,077)
Deficit	(5,704,471)		2,109,274	(3,595,197)
Total shareholders' equity	2,236,370		3,339,832	5,576,202
Total shareholders' equity and liabilities	24,092,667		(1,683,924)	22,408,743

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

Consolidated Statement of Income and Comprehensive Income for the year ended March 31, 2014:

	Previously reported \$	Note	Adjustment \$	Restated \$
Revenue				
Oil and natural gas revenue	4,108,690		—	4,108,690
Royalties	(420,837)		—	(420,837)
	3,687,853		—	3,687,853
Expenses				
Operating	1,940,149		—	1,940,149
Transportation	53,567		—	53,567
General and administrative	2,379,792		—	2,379,792
Foreign exchange	482,381		—	482,381
Fair value adjustment on marketable securities	30,686		—	30,686
Gain on business combination	(6,623,675)	(a) (b)	(5,835,492) 265,936	(12,193,231)
Measurement adjustment on decommissioning obligation	—	(c)	4,621,935	4,621,935
Depletion and depreciation	889,383	(b) (d)	(4,679) (100,730)	783,974
Fair value adjustment on derivative liability	(55,653)		—	(55,653)
	(903,370)		(1,053,030)	(1,956,400)
Income from operations	4,591,223		1,053,030	5,644,253
Finance income	126,120		—	126,120
Finance expense	(804,811)	(d)	(88,692)	(893,503)
Net finance expense	(678,691)		(88,692)	(767,383)
Income before taxes	3,912,532		964,338	4,876,870
Tax reduction	296,711	(b) (c) (d)	(4,036) 1,271,032 (122,060)	1,441,647
Net income	4,209,243		2,109,274	6,318,517
Exchange differences on translation of foreign operations	(562,349)	(a) (b) (c) (d)	326,502 (28,224) (192,566) 1,124,846	668,209
Comprehensive income	3,646,894		3,339,832	6,986,726
Net income per share				
Basic and diluted	0.48		0.24	0.72

The correction of the above errors had no impact on the Company's reported net cash flows from operating, financing or investing activities.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

7. Marketable securities

		2015		2014
GRIT shares (a)	\$	34,130	\$	378,460
Bonds (b)		202,863		–
	\$	236,993	\$	378,460

(a) GRIT shares

On March 7, 2014, the Company issued 1,600,000 common shares to Global Resources Investment Trust plc (“GRIT”) (Note 17), an unrelated party, in exchange for 222,000 GRIT shares. The share exchange was recognized at the £1.00 quoted market price of the GRIT shares on the date of issuance, being £222,000 (CAD \$411,699).

During the year ended March 31, 2015, the Company sold a total of 105,087 (2014 – nil) GRIT shares for proceeds of \$55,981.

As at March 31, 2015, the Company held 116,913 GRIT shares with a fair value of £18,122 (CAD \$34,130) (2014 – 222,000 GRIT shares with a fair value of £205,350 (CAD \$378,460)). During 2015, the Company recognized a \$135,910 loss (2014 - \$nil) on the sale of marketable securities, a \$161,560 loss (2014 – \$30,686 loss) on the fair value of the marketable securities and a \$9,121 gain (2014 – \$2,553 loss) on foreign exchange in the consolidated statements of income (loss) and comprehensive income (loss).

(b) Bonds

During the year ended March 31, 2015, the Company acquired US\$160,000 (CAD \$202,863) of government-issued bonds in Argentina. The bonds bear interest at a fixed rate of 7 % per annum payable semiannually, calculated on the basis of a 360 day year, and mature on October 3, 2015 with early redemption permitted at the option of the holder.

The Company redeemed the bonds in May 2015 and used the related proceeds to repay notes payable as disclosed in Notes 12 and 27(b).

8. Business combination

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

On completion of the transaction, the Company paid MOG a nominal sum of €100 (\$136) for the acquisition of MOG's working interests in the Assets and has assumed the liability for future plugging, abandonment and site remediation costs associated with the Assets. At the same time, the Company received a cash payment of €1,250,000 (\$1,701,250) as MOG's contribution toward future abandonment and remediation costs. The Company also received an initial advance of €104,000 (\$142,200), for a portion of the revenue MOG received from the Assets during the period between the August 24, 2012 effective date of the acquisition and the June 6, 2013 closing date, net of allowable operating costs, agreed capital expenditure associated with the Assets and certain deposits for future capital expenditures.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

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

	Previously reported	Adjustments (Notes 6 (a) and (b))	Restated
Fair value of net assets acquired:			
Cash	\$ 1,843,450	\$ –	\$ 1,843,450
Trade and other receivables	402,459	–	402,459
D&P assets	14,298,378	918,361	15,216,739
Foreign currency translation	319,212	(326,502)	(7,290)
Decommissioning obligation	(8,700,236)	7,580,941	(1,119,295)
Deferred tax	(1,539,452)	(2,236,435)	(3,775,887)
Gain on business combination	(6,623,675)	(5,569,556)	(12,193,231)
	\$ 136	\$ 366,809	\$ 366,945
Consideration:			
Cash	136	–	136
Pre-acquisition capital expenditures	–	366,809	366,809
	\$ 136	\$ 366,809	\$ 366,945

The estimated value of the D&P assets acquired was determined using both internal estimates and an independent reserve evaluation based on oil and gas reserves discounted at 15%. The fair value of decommissioning obligation assumed was determined using the timing and estimated costs associated with the abandonment, restoration, and reclamation of the wells and facilities acquired, discounted at a credit-adjusted rate in accordance with IFRS 3 Business Combinations and IFRS 13 Fair Value Measurement.

As the cost of the acquisition was less than the fair value of the net assets acquired, the Company recognized a \$12,193,231 gain on the business combination in the 2014 consolidated statements of income (loss) and comprehensive income (loss).

On June 7, 2013, the day immediately following the acquisition date, the decommissioning obligation assumed was re-measured using a long-term risk-free rate based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The result was a \$4,621,935 increase in the decommissioning obligation associated with the acquired assets and the recognition of a \$4,621,935 measurement adjustment in the 2014 consolidated statement of income (loss) and comprehensive income (loss).

Costs related to acquisition totaled \$233,547 were incurred and charged to income during year ended March 31, 2014. During the period from June 6, 2013 to March 31, 2014, the acquisition attributed revenues of \$901,542 and net income of \$6,895,772 for the period, which is included in the 2014 consolidated statement of income (loss) and comprehensive income (loss).

If the business combination, as described above, had occurred on April 1, 2013, the Company estimates that the revenue would have increased by approximately \$180,300 and consolidated net income and comprehensive income would have decreased by approximately \$12,100. This pro forma information is not necessarily indicative of results had the acquisition occurred on April 1, 2013.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

9. Property and equipment

2014 Restated (Note 6)	D&P assets	Furniture & fixtures	Total
Cost			
Balance – March 31, 2013	\$ 4,506,350	\$ 116,242	\$ 4,622,592
Additions	103,016	–	103,016
Business combination (Note 8)	15,216,739	–	15,216,739
Decommissioning obligation	(83,808)	–	(83,808)
Foreign currency translation	774,726	(35,608)	739,118
Balance – March 31, 2014	20,517,023	80,634	20,597,657
Additions	1,170,600	–	1,170,600
Decommissioning obligation	(1,486,574)	–	(1,486,574)
Foreign currency translation	(1,600,964)	3,389	(1,597,575)
Balance – March 31, 2015	\$ 18,600,085	\$ 84,023	\$ 18,684,108
Accumulated depletion and depreciation			
Balance – March 31, 2013	\$ (687,528)	\$(46,159)	\$ (733,687)
Depletion and depreciation	(761,419)	(22,555)	(783,974)
Foreign currency translation	154,651	18,867	173,518
Balance – March 31, 2013	(1,294,296)	(49,847)	(1,344,143)
Depletion and depreciation	(663,358)	(4,557)	(667,915)
Foreign currency translation	23,839	(2,367)	21,472
Balance – March 31, 2015	\$ (1,933,815)	\$ (56,771)	\$ (1,990,586)
Carrying amount			
March 31, 2014	\$ 19,222,727	\$ 30,787	\$ 19,253,514
March 31, 2015	\$ 16,666,270	\$ 27,252	\$ 16,693,522

The depletion calculation for the year ended March 31, 2015 included estimated future development costs of \$4.9 million for proved and probable reserves (2014 – \$4.0 million).

As at March 31, 2015, the Company identified certain business risks related to its Italian and Argentine CGUs, such as a decrease in forecast prices from those in the prior year and the deferral of future capital investment, as indicators of impairment. As a result, the Company performed an impairment test at March 31, 2015.

Management estimated the recoverable amount of the above CGUs based on the higher of the fair value less costs to sell and its value in use. The estimated value in use was based on 15% discounted cash flows expected to be derived from proved plus probable reserves based on the externally prepared March 31, 2015 reserve report. The March 31, 2015 estimated recoverable amount of each CGU was higher than the respective carrying amounts at March 31, 2015 and therefore no impairment was recognized.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

The price used onward in the March 31, 2015 for the impairment test of the Argentine CGU was \$61 US per bbl.

The following prices were used in the March 31, 2015 impairment test of the Italian CGU:

Year	Average USD gas price per mcf	Average USD NGL price per bbl
2015 – remainder	\$8.60	\$56.49
2016	9.03	65.61
2017	9.33	69.51
2018	9.63	72.66
2019	9.93	74.29
2020	10.12	76.67
2021 and thereafter	1% escalation	1% escalation

The Company did not identify any indicators of impairment with respect to its Italian or Argentine CGUs as at March 31, 2014.

10. Prepaid property and equipment insurance

Upon the change of ownership of the Assets acquired in Italy (Note 9), the Company obtained an insurance policy for its Italian oil and gas operations. The policy has a five year term for which the Company paid the total premium of EUR 567,300 (\$867,939), of which \$209,720 (2014 – \$144,854) has been recognized as an expense, \$157,958 (2014 – \$173,588) is included in current prepaid expenses and the remaining \$355,407 (2014 – \$549,497) balance is reported as a long-term asset.

11. Oil share agreement

In connection with a business combination completed in July 2010, the Company became obligated to an oil share agreement pursuant to which, for a period of three years commencing November 30, 2010, the Company would provide the vendor with the following: (i) 50% of the annual gross revenue derived from the sale of barrels of oil from the properties at a per barrel invoice price that exceeds US\$42.00, but is less than or equal to US\$52.00; and (ii) 25% of the annual gross revenue derived from the sale of barrels of oil at a per barrel invoice price that exceeds US\$52.00.

The term of the agreement ended on November 2, 2013. Accretion of the liability and the effects of revisions to estimates were recognized as royalty expense in the consolidated statements of income (loss) and comprehensive income (loss).

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

	2015	2014
Balance – beginning of year	\$ 875,727	\$ 686,990
Royalty expense	–	120,562
Foreign currency translation	128,963	68,175
Balance – end of year	\$ 1,004,690	\$ 875,727

The carrying amount of this obligation was estimated based on the following assumptions:

	2014
Discount rate	7.5%
Production (barrels of oil)	119,550
Actual and estimated sales price per barrel of oil (USD)	\$ 58.45
Undiscounted cash flows	\$ 875,727

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

12. Note payable

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

During the year ended March 31, 2015, the Company repaid US\$241,330 (CAD \$274,642) (of notes payable plus related accrued interest (2014 – US\$60,000 (CAD\$87,004))). As at March 31, 2015, the Company had US\$98,670 (CAD\$125,143) of notes payable outstanding.

As at March 31, 2015, the balance of the note payable is \$200,499 including accrued interest (2014 – \$374,068).

The Company repaid the balance of the note payable including accrued interest in May 2015 with proceeds from the redemption of bonds (Note 7(b)). See Note 27(b).

13. Loan payable

As at March 31, 2013, the Company was indebted to a third party lender for a US\$2,000,000 (CAD\$2,031,200) unsecured loan payable bearing fixed interest at the US prime rate of 3.25% plus 6.75%.

On June 1, 2013, the Company and the third party lender amended the terms of the US\$2,000,000 loan payable as follows:

- Amended principal amount to US\$2,050,000 representing the original US\$2,000,000 principal amount plus US\$121,644 of accrued interest up to June 1, 2013 and a US\$50,000 arrangement fee in connection with the amendment of the loan payable;
- Maturity date of June 1, 2015;
- Interest rate of 10% per annum, calculated yearly and payable in monthly installments on the last day of each month;
- Interest only payments for the first 12 months, then equal monthly installments of principal and interest until June 1, 2015;
- Conversion of the loan to bonds and the issuance of 500,000 warrants to the lender exercisable at \$1.00 per share until June 1, 2015, subject to approval by the TSX Venture Exchange, for which the estimated fair value of the conversion feature is negligible; and
- Distribution of certain net profits to the lender, as defined in the amended loan agreement, related to the sale of all or part of the Company's assets and operations in Argentina.

As a result of the June 1, 2013 amendment, the Company recognized US\$121,644 (CAD\$126,120) of finance income in the March 31, 2014 consolidated statement of income (loss) and comprehensive income (loss) for the recovery of previously accrued but unpaid interest.

On July 30, 2014, the maturity date of the loan was amended to June 1, 2016 and the repayment terms were amended to require all accrued and unpaid interest up to June 1, 2015 paid in full by June 1, 2015, then equal monthly installments of principal and interest until June 1, 2016. The Company also pledged the shares of its wholly owned subsidiary, IPP, as security for the loan payable.

As at March 31, 2015, based on the amended terms of the loan payable, \$2,166,679 (2014 – \$1,888,221) of principal is classified as a current liability; \$433,336 (2014 – \$377,644) of principal is classified as long-term and \$166,641 (2014 – \$131,285) of accrued interest is included in traded and other payables.

In May 2015, the terms of the loan payable were further amended to extend the maturity date to August 30, 2016 and revise the repayment schedule. See Note 27 (c).

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

14. Convertible notes

	Face value \$	Debt component \$	Derivative liability \$
Balance – March 31, 2013	1,158,674	1,016,606	56,754
Change in fair value	–	–	(55,653)
Accretion	–	105,172	–
Foreign exchange	191,495	144,011	–
Balance – March 31, 2014	1,350,169	1,265,789	1,101
Modifications	–	(774,583)	774,583
Conversion	(539,663)	(331,808)	(102,421)
Change in fair value	–	–	(513,941)
Accretion	–	418,863	–
Foreign exchange	(1,001)	4,385	–
Balance – March 31, 2015	809,505	582,646	159,322

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

On August 21, 2014, the Company reduced the conversion price to CAD\$0.215 per share. The effect of the conversion price reduction has been accounted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be \$564,645 on the date of the modification.

On September 12, 2014, \$460,000 Swiss Francs (CAD\$539,663) of convertible notes were converted into 2,510,058 common shares and \$23,000 of accrued and unpaid interest forgiven resulting in the recognition of a \$82,434 loss on conversion of convertible notes in the 2015 consolidated statements of income (loss) and comprehensive income (loss).

On December 12, 2014, the Company extended the maturity date of the convertible notes to January 11, 2016. The effect of the extension has been counted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be \$128,717 on the date of modification.

On March 30, 2015, the Company extended the maturity date of the convertible notes to January 11, 2017. The effect of the extension has been counted for as a modification of the derivative liability component of the convertible notes for which the fair value was estimated to be \$81,221 on the date of modification.

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

	August 21 2014	December 12 2014	March 30 2015	March 31 2015	March 31 2014
Risk free interest rate	1.04%	1.01%	0.51%	0.51%	1.07%
Expected life	0.32 years	1.08 years	1.79 years	1.78 years	0.8 years
Expected volatility	100%	100%	100%	100%	100%

As at March 31, 2015, the Company held \$620,000 Swiss Francs (CAD\$809,505) of unsecured convertible notes. Interest is accrued and presented in trade and other payables in the amount of \$235,974 as at March 31, 2015 (2014 – \$156,865).

In July 2015, the Company amended the terms of the unsecured convertible notes. See Note 27(d).

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

15. Decommissioning obligation

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

2014 Restated (Note 6)	2015	2014
Balance – beginning of year	\$ 7,277,681	\$ 1,283,060
Business combination (Note 8)	–	1,119,295
Measurement adjustment (Note 8)	–	4,621,935
Change in estimate	(1,486,574)	(83,808)
Accretion	556,964	298,288
Foreign currency translation	(568,272)	38,911
Balance – end of year	\$ 5,779,799	\$ 7,277,681

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

	2015	2014
Undiscounted cash flows – uninflated	\$16.2 million	\$18.3 million
Undiscounted cash flows - inflated	\$308.4 million	\$109.4 million
Risk free rate	28.8%	23.7%
Inflation rate	16.2%	12.5%
Expected timing of cash flows	18 – 23 years	18 – 19 years

16. Taxes

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

2014 Restated (Note 6)	2015	2014
Expected tax provision (reduction) at 25%	\$ (569,198)	\$ 1,219,218
Non-taxable gain on business combination	–	(2,941,980)
(Non-taxable) non-deductible expenses	(47,302)	12,290
Changes in enacted rates and other	776,327	(21,676)
Changes in unrecognized deferred tax assets	(60,336)	290,501
Tax provision (reduction)	\$ 99,491	\$ (1,441,647)

The tax provision (reduction) for the year ended March 31, 2015 is comprised of \$nil (2014 – \$36,108) of current tax expense and a \$99,491 deferred tax provision (2014 – \$1,477,755 deferred tax reduction).

Recognized deferred tax liabilities are attributable to the following:

2014 Restated (Note 6)	2015	2014
Property and equipment	\$ (3,886,192)	\$ (3,837,214)
Decommissioning obligation	1,365,518	1,539,082
Non-capital loss carryforwards	123,051	–
Recognized deferred tax liabilities	\$ (2,397,623)	\$ (2,298,132)

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

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

	2015	2014
Non-capital loss carryforwards	\$ 2,955,114	\$ 2,442,100
Share issuance costs	36,358	25,287
Other	220,404	804,825
Unrecognized deferred tax assets	\$ 3,211,876	\$ 3,272,212

As at March 31, 2015, the Company has accumulated non-capital losses in Canada totaling \$11.6 million (2014 – \$9.1 million) which expire in varying amounts between 2028 and 2035 and \$0.5 million (2014 – \$0.4 million) of non-capital losses in Italy.

17. Share capital

(a) Authorized

Unlimited number of voting common shares without par value.

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

(b) Issued

	Number of common shares	Amount \$
Balance – March 31, 2013	8,188,429	6,556,260
Non-brokered unit private placement (i)	750,000	150,000
Fair value of warrants (i)	–	(93,000)
Non-brokered unit private placement (ii)	400,000	100,000
Shares issued for services (iii)	313,610	59,586
Share exchange (iv)	1,600,000	411,699
Share issue costs	–	(32,652)
Balance – March 31, 2014	11,252,039	7,151,893
Non-brokered unit private placement (v)	15,529,984	2,329,498
Fair value of warrants (v)	–	(1,090,800)
Conversion of convertible notes (vi)	2,510,058	539,663
Share issue costs	–	(243,698)
Balance – March 31, 2015	29,292,081	8,686,556

- i) On September 20, 2013, the Company completed the private placement of 750,000 units at \$0.20 per unit for gross proceeds of \$150,000. Each unit is comprised of one common share and one warrant exercisable at \$0.25 until September 20, 2015. The fair value of the warrants was estimated at \$93,000 using the Black-Scholes pricing model (Note 4 (e)).

In connection with the unit private placement, the Company incurred \$171,181 of issuance costs, paid a finder's fee of \$15,471 and issued 75,000 finder's warrants exercisable for a period of 36 months from the issuance date. The fair value of the finder's warrants was determined to be a nominal amount.

- ii) On February 10, 2014, the Company received TSX Venture Exchange approval for completion of a \$100,000 non-brokered private placement of 400,000 common shares at \$0.25 per share to an insider of the Company.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

- iii) On February 19, 2014, the Company issued 313,610 common shares as payment for services valued at \$59,586 based on the \$0.19 market price of the Company's shares on the date of issuance and recognized in the 2014 consolidated statement of income (loss) and comprehensive income (loss).
- iv) On March 7, 2014, the Company issued 1,600,000 common shares to GRIT in exchange for 222,000 GRIT shares. The share exchange was recognized at the £1.00 market value of the GRIT shares on the date of issuance, being £222,000 (CAD \$411,699) (Note 7).
- v) During the year ended March 31, 2015, the Company issued a total of 15,529,984 units at \$0.15 per unit for gross proceeds of \$2,329,498. Each unit is comprised of one common share and one warrant exercisable at \$0.25 per share for a period of 36 months from the date of issuance. The fair value of the warrants was estimated at \$1,090,800 using the Black-Scholes pricing model (Note 4 (e)).

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

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

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

18. Warrants

	Number of warrants	Amount \$	Weighted average exercise price
Balance – March 31, 2013	3,955,870	1,231,069	\$ 1.11
Unit private placements (Note 17)	750,000	93,000	0.25
Finder's fees (Note 17)	75,000	–	0.25
Expired	(2,152,503)	(836,812)	(1.03)
Balance – March 31, 2014	2,628,367	487,257	\$ 0.85
Unit private placements (Note 17)	15,529,984	1,090,800	0.25
Finder's fees (Note 17)	873,868	61,908	0.25
Expired	(1,803,367)	(394,257)	(1.13)
Balance – March 31, 2015	17,228,852	1,245,708	\$ 0.25

As at March 31, 2015, the Company had 17,228,852 warrants outstanding and exercisable at a weighted average exercise price of \$0.25 per share with a weighted average life remaining of 2.36 years.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

19. Stock options

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

	Number of options	Weighted average exercise price
Balance – March 31, 2013	280,000	\$ 1.11
Expired	(66,000)	(1.00)
Balance – March 31, 2014	214,000	1.14
Expired	(39,000)	(1.77)
Balance – March 31, 2015	175,000	\$ 1.00

As at March 31, 2015, the Company had a 175,000 stock options outstanding and exercisable at a weighted average exercise price of \$1.00 per share with a weighted average life remaining of 0.7 years.

20. Per share amounts

2014 Restated (Note 6)	2015	2014
Net income (loss)	\$ (2,376,281)	\$ 6,318,517
Weighted average number of shares – basic:		
Issued common shares as at April 1	11,252,039	8,188,429
Effect of common shares issued during the year	9,893,479	587,793
	21,145,518	8,776,222
Net income (loss) per share – basic and diluted ⁽¹⁾	\$ (0.11)	\$ 0.72

⁽¹⁾ The Company did not have any in-the-money convertible notes, warrants and stock options during the years ended March 31, 2015 and 2014. The effect of convertible notes, warrants and stock options is anti-dilutive in loss periods.

21. Finance income and expense

2014 Restated (Note 6)	2015	2014
Income:		
Recovery of loan payable interest (Note 13)	\$ –	\$ 126,120
Expense:		
Interest expense	444,292	490,043
Accretion of decommissioning obligation	556,964	298,288
Accretion of convertible notes	418,863	105,172
	1,420,119	893,503
Net finance expense	\$ (1,420,119)	\$ (767,383)

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

22. Supplemental disclosure

(a) Employee compensation cost

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

	2015	2014
Operating	\$ 1,289,609	\$ 909,419
General and administrative	563,881	303,709
Total employee compensation cost	\$ 1,853,490	\$ 1,213,128

(b) Key management compensation

The Company considers its officers and directors to be key management personnel. As at March 31, 2015, key management personnel included 7 individuals (2014 – 7 individuals).

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

	2015	2014
Consulting fees	\$ 234,636	\$ 135,948
Bonus	200,000	152,943
Total key management compensation	\$ 434,636	\$ 288,891

23. Change in non-cash working capital

	2015	2014
Trade and other receivables	\$ 448,999	\$ (350,973)
Inventory	(14,144)	(6,946)
Prepaid expenses	(12,885)	(190,310)
Prepaid property and equipment insurance	143,796	(509,766)
Trade and other payables	(188,347)	1,084,114
Total change in non-cash working capital	\$ 377,419	\$ 26,119

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

	2015	2014
Operating	\$ 47,044	\$ (539,267)
Financing	30,660	–
Investing	299,715	565,386
Total change in non-cash working capital	\$ 377,419	\$ 26,119

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

24. Related party transactions

Related party transactions are considered to be in the normal course of operations and are initially recognized at fair value. Related party transactions during the years ended March 31, 2015 and 2014 not disclosed elsewhere in these consolidated financial statements are as follows:

- a) Included in general and administrative expenses is \$257,837 (2014 – \$200,879) charged by a company controlled by an officer and director of the Company for office rent and administrative services. As at March 31, 2015, \$nil (2014 – \$nil) was included in trade and other payables in respect of these charges.
- b) Included in interest expense is \$2,466 (2014 – \$5,175) on \$50,000 Swiss Francs of convertible notes held by a company controlled by a director of the Company, of which \$nil is included in trade and other payables as at March 31, 2015 (2014 – \$12,515). These notes were converted to common shares and the related accrued and unpaid interest forgiven on September 12, 2014 (Note 14).
- c) Included in trade and other payables is \$52,313 (2014 – \$13,803) due to officers and directors of the Company in respect of general and administrative expenditures made on behalf of the Company for which the officers and directors will be reimbursed.

25. Financial risk management

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

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counter party to a financial instrument fails to meet its commercial obligations. The Company's maximum credit risk exposure is limited to the carrying amount cash of \$936,499 (2014 – \$711,248) and trade and other receivables of \$713,031 (2014 – \$1,215,913).

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

	2015	2014
Oil and natural gas sales	\$ 383,067	\$ 909,525
Stamp tax and other tax withholdings	234,394	235,953
Goods and services tax	16,964	10,861
Other	78,606	59,574
	<u>\$ 713,031</u>	<u>\$ 1,215,913</u>

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

The Company considers its receivables to be aged as follows:

	2015	2014
Current	\$ 443,999	\$ 933,343
90 + days	269,032	282,570
	<u>\$ 713,031</u>	<u>\$ 1,215,913</u>

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

b) Liquidity risk

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

As at March 31, 2015, the Company had \$5,606,441 (2014 – \$6,879,084) of current liabilities for which the Company's \$936,499 (2014 – \$711,248) cash balance is insufficient to settle the current liabilities. It is expected that further debt and equity financings will be required in order to settle existing current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that such financings will be available to the Company.

As of March 31, 2015, the contractual cash flows, including estimated future interest, of current and non-current financial liabilities mature as follows:

	Carrying amount	Contractual cash flows	Due on or before March 31 2016	Due on or before August 30 2016	Due January 11 2017
Trade and other payables	\$ 2,234,573	2,234,573	2,234,573	–	–
Oil share agreement	1,004,690	1,004,690	1,004,690	–	–
Note payable	200,499	202,573	202,573	–	–
Loan payable	2,600,015	2,904,894	2,420,745	484,149	–
Convertible notes	582,646	866,592	–	–	866,592
	\$ 6,622,423	7,213,322	5,862,581	484,149	866,592

c) Market risk

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

i) Currency risk

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

	Closing rate		Average rate	
	2015	2014	2015	2014
ARS	0.1438	0.1380	0.1357	0.1753
US dollars	1.2683	1.1055	1.1387	1.0534
Euro	1.3623	1.5227	1.4382	1.4126
Swiss Franc	1.3057	1.2501	1.2248	1.1491

The following represents the estimated impact on net income (loss) of a 10% change in the closing rates as at March 31, 2015 and 2014 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	2015	2014
US dollars	\$ 270,200	\$ 252,900
Swiss Franc	104,600	150,700
	\$ 374,800	\$ 403,600

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

ii) Commodity price risk

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

As at March 31, 2015, a 5% change in the price of natural gas produced in Italy would represent a change in net income (loss) for the year ended March 31, 2015 of approximately \$53,900 (2014 – \$45,100).

Oil prices in Argentina are the results of formulas that are set by refineries based on instructions or decrees from the government and crude oil prices in Argentina are capped by the Government at variable levels. As at March 31, 2015, a 5% change in the price of oil would represent a change in net income (loss) for the year ended March 31, 2015 of approximately \$168,100 (2014 – \$145,300).

iii) Interest rate risk

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

26. Capital management

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

	2015	2014
Working capital deficiency	\$ 3,407,115	\$ 4,273,352
Long-term debt	1,015,982	377,644
Shareholders' equity	4,289,088	5,576,202

The Company has recently emerged from the development stage; however its cash flow from the Argentinean operation will be needed in the near term to finance the operations and repay vendor loans. Therefore, the Company's principal source of funds will remain the issuance of common shares. The Company's ability to raise future capital through equity is subject to uncertainty and the inability to raise such capital may have an adverse impact over the Company's ability to continue as a going concern.

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

27. Subsequent events

- (a) In May 2015, subject to regulatory approval, the Company completed a non-brokered private placement of 225,000 units at a price of GBP 1.00 per unit (approximately \$1.84 per unit) for gross proceeds of GBP 225,000 (approximately \$414,000). Each unit consists of one GBP 1.00 secured bond and six common share purchase warrants. Each common share purchase warrant entitles the holder thereof to purchase, subject to adjustment, one additional common share at an exercise price of \$0.25 per share for a period of 36 months from the date of issuance. In connection with the private placement, the Company paid a finder's fees of GBP 11,250 and granted 67,500 finder's warrants exercisable at \$0.25 until for a period of 36 months from the date of issuance.
- (b) In May 2015, the Company repaid the note payable including accrued interest (Note 12) with proceeds from the redemption of bonds (Note 7(b)).

Zenith Energy Ltd.

(formerly Canoel International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

- (c) In May 2015, the Company amended the loan payable (Note 13) repayment schedule and extended the maturity date from June 1, 2016 to August 30, 2016. The amendment was effective March 31, 2015. Pursuant to the amended agreement, the Company will make repayments of principal and interest in the amount of US\$17,200 per month from June 1, 2015 to August 30, 2016, a US\$700,000 payment on November 30, 2015, a US\$1,000,000 payment on April 15, 2016 and a final payment of US\$389,597 on August 30, 2016.

In accordance with IFRS, as the amended agreement was not signed as at March 31, 2015, the current portion of the loan payable as presented in the March 31, 2015 consolidated statement of financial position reflects the original repayment terms.

- (d) In July 2015, subject to approval by the TSX Venture Exchange, the Company entered into an agreement to amend the terms of its unsecured convertible notes (Note 14). Pursuant to the terms of the agreement, the conversion price was reduced from \$0.215 per share to \$0.125 per share and the rate of interest was reduced from 9% to 5%. The amended conversion price is based on the July 7, 2015 closing market price of the Company's shares.

Zenith Energy Ltd.

(formerly Canoe International Energy Ltd.)

Notes to the Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

(Expressed in Canadian dollars)

28. Operating segments

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

- Argentina;
- Italy, which commenced gas operations following the acquisition of assets in June 2013 (Note 8); and,
- Other, which includes corporate assets and the operations in the Canadian and US entities. None of these individual segments meet the quantitative thresholds for determining reportable segments in 2015 or 2014.

		March 31, 2015				March 31, 2014 - Restated (Note 6)			
		Argentina	Italy	Other	Total	Argentina	Italy	Other	Total
Property and equipment	\$	2,250,254	14,443,268	-	16,693,522	3,267,138	15,986,376	-	19,253,514
Other assets	\$	930,904	1,120,668	503,161	2,554,733	1,047,784	1,627,287	480,158	3,155,229
Total liabilities	\$	5,184,303	5,468,607	4,306,257	14,959,167	5,380,166	6,779,448	4,672,927	16,832,541
Capital expenditures	\$	(929,624)	(240,976)	-	(1,170,600)	(7,069)	(325,048)	-	(332,117)

2014 Restated (Note 6)		Years ended March 31							
		2015	2014	2015	2014	2015	2014	2015	2014
		Argentina		Italy		Other		Total	
Revenue	\$	3,707,073	3,207,148	1,077,365	901,542	-	-	4,784,438	4,108,690
Royalties		345,132	300,275	-	-	-	120,562	345,132	420,837
Operating and transportation		1,437,731	1,365,171	375,336	628,545	-	-	1,813,067	1,993,716
General and administrative		641,957	421,030	475,040	256,808	1,578,389	1,701,954	2,695,386	2,379,792
Depletion and depreciation		381,294	555,664	286,621	228,310	-	-	667,915	783,974
Gain on business combination		-	-	-	(12,193,231)	-	-	-	(12,193,231)
Other expense		-	-	-	4,621,935	-	-	-	4,621,935
Finance and other expenses		626,816	553,822	126,716	121,931	786,196	549,044	1,539,728	1,224,797
Segment income (loss)	\$	274,143	11,186	(186,348)	7,237,244	(2,364,585)	(2,371,560)	(2,276,790)	4,876,870