Rating report October 09, 2023

EuroRating assigns 'B+' long-term debt issuer credit rating to ZENITH ENERGY LTD.

Public / Private rating	**public**
Continued / One off rating	**continued (monitored rating)**
Category	**rating for the issuer/company**
Name of the rated entity	**Zenith Energy Ltd (Canada)**
Type of the rated entity	**corporation**
Type of the credit rating	**long-term, international scale**
Date of rating assignment	**October 09, 2023**
Rating level	**B+**
Rating outlook	**stable**

Key rating drivers

Positive:

Increase in sales revenue: In the last two financial years (ending in March) the consolidated sales revenue generated by Zenith Energy Ltd ("Zenith", "Zenith Energy" or the "Company") significantly increased, surpassing both production costs and depletion, as well as depreciation expenses. As a result, the Group was able to generate gross profit on sales of CAD 3.8 million in 2021/22 and CAD 2.7 million in 2022/23.

Increasing diversification of revenues: The company aims to generate income from several separate sources. By diversifying revenue streams, Zenith can reduce the impact of disruptions in any single source on the overall financial stability of the Group.

Withdrawal from countries with increased risk: The Board of Directors has chosen to shift its focus from countries marked by higher economic and political uncertainty towards countries with a greater degree of stability, significantly reducing the risks associated with the company's operations.

Expansion and diversification of the assets portfolio: Zenith intends to acquire assets that are already in production through potential acquisitions in Kazakhstan and the USA. This approach is preferred over investing in assets that require significant capital expenditure before production can be achieved.

High crude oil prices: As the company focuses on crude oil extraction activity, its revenues may be positively influenced by the continued high prices of the commodity (in the last six months crude oil price grew from $65 to ca. $90 per barrel).

Public listing of the company's shares: Zenith Energy's shares are listed on the London Stock Exchange Main Market and on the Euronext Growth of the Oslo Stock Exchange. The Company therefore has access to raising capital from equity capital markets.

Experienced management team: Zenith Energy's management team has extensive knowledge and experience in the global exploration and production industry with an established track record. In addition, the Company's CEO, Mr. Andrea Cattaneo, holds a significant stake of 7.2% in the share capital of the Company.

Negative:

High risk of the business model: The primary focus of Zenith Energy's investments is in international oil and gas exploration, development, and production projects. Due to the specificity of the industry type and geographical regions in which the Group operates (or intends to operate) its business model should be assessed as characterized by a high risk.

Negative operating and net result: Until the FY 2020/21 Zenith Energy generated continued negative results even on the gross result on sales level. Despite the large improvement in revenues in the recent two financial years and generating gross profit on sales, this was still insufficient to cover operating and financial expenses and the Group generated (adjusted for gain on business combination) negative net result.

Negative cash flows from operating activities: Since 2015/16, the cash flow from operating activities has consistently shown negative values and the Company has had to finance this deficit, as well as investment expenses, by obtaining external financing (through issues of shares, loans and issuing bonds). This has not changed even in the last two years, despite the observed significant increase in sale revenues.

Relatively weak liquidity position: Although the general liquidity position of the Company has improved over the last two years, it should still be described as relatively weak. The overall liquidity ratios are currently at satisfactory levels, but the cash balance held by the Group is low. Together with a very long trade liabilities rotation (which equals 12 months) it means that liquidity stress may still occur periodically in the Zenith Energy group of companies. A tight liquidity situation in the Group is also indicated by the low ratio of cash to short-term interest-bearing liabilities.

Dependence on access to external financing: Unless the company is able to commence operations in the USA and Kazakhstan (as communicated by regulatory news), areas of business development which are expected to generate high revenues and positive operating cash flows, the Company's operations will continue to be very much dependent on the possibility of obtaining external financing.

Uncertain asset value estimates: The value of fixed assets (constituting 87% of the total assets) shown in the Zenith's balance sheet is mostly estimated as discounted projected future cash flows from individual projects. However, these valuations are based on numerous assumptions, e.g. regarding oil or gas reserves, production performance, as well as market prices of the commodities and interest rates. There is a risk that these assumptions may in some cases differ significantly from the actual future realization. Thus, the value of assets and, at the same time, the value of the Company's equity is based to a large extent on forecasts and estimates and may be subject to high fluctuations over time.

Low likelihood of shareholder support: Zenith Energy's shareholding structure is very dispersed. Only three shareholder groups hold more than 5% of shares (none above 10%). Due to an absence of a dominant and financially credible shareholder, EuroRating assesses the Company's potential support from shareholders in a crisis situation as low.

Stable rating outlook

The stable outlook assigned to the credit rating means, that according to current estimates of the EuroRating credit rating agency the rating should most probably remain unchanged in the horizon of the next 12 months.

Major factors that could lead to a rating change

To the most important factors that (individually or collectively) could have a positive impact on the current level of the credit rating assigned to Zenith Energy Ltd, EuroRating includes: successful completion of new asset acquisitions enabling the Company to generate high revenues and high positive net cash flows; Zenith Energy's revenue growth in line with company's forecasts, translating into positive operating income, net profit and high positive net cash flows generation; increasing cash reserves and improving the liquidity position; equity growth driven by operating activity results or issuance of new shares, rather than gains from 'business combination'; increase in the share of equity in the balance sheet total.

To the factors that could negatively influence the current level of the credit rating, EuroRating includes, among other factors: failure to complete new acquisitions or, notwithstanding their successful completion, the production and financial results of these newly acquired assets being significantly below forecasts; continued generation by Zenith Energy of negative operating results, net losses and negative cash flows from operating activity; possible deterioration of the liquidity situation and an increase in the risk of the inability to repay financial liabilities on time; excessive (compared to the Group's capabilities) capital expenditures on existing or new investment projects; decrease in the value of equity and/or its share in the balance sheet total.

Company profile

Registration data

Company name: Zenith Energy Ltd. **Registered office**: Suite 2400, 745 Thurlow Street, V6E 0C5, Vancouver, British Columbia, Canada. **Head office**: Suite 4000, 421 - 7th Avenue SW, Calgary, T2P 4K9, Alberta, Canada. **Company registration number (Canada)**: BC0803216. **Legal Entity Identifier**: 213800AYTYOYD61S4569.

Zenith Energy Ltd is an international oil and gas company based in Canada. The company mainly focuses on the development of marginal oil and gas fields, rather than exploration. Its strategic approach involves identifying 'drill-ready' assets with substantial near-term production potential. After establishing a presence in Argentina and Azerbaijan, Zenith expanded its operations to Africa, acquiring an oil and gas companies in the Republic of the Congo and Tunisia in 2020.

In addition to its oil activities in Africa, Zenith is also engaged in natural gas and electricity production in Italy, a market it has been serving since 2013. As of now, the majority of the company's revenue is generated from its operations in Tunisia and Italy.

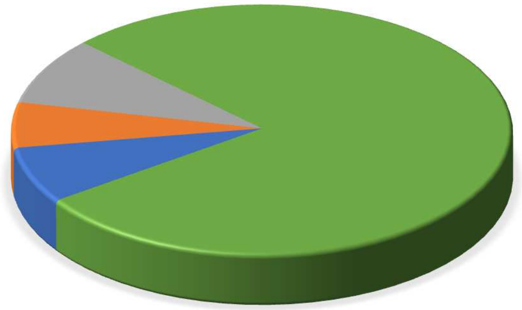
The company’s shares are listed on the London Stock Exchange Main Market (LSE: ZEN) and on the Euronext Growth of the Oslo Stock Exchange (OSE: ZENA).

Shareholder structure

Zenith Energy’s issued share capital currently comprises of 231,030,237 common shares of no par value with one voting right per common share. No common shares are held in treasury.

The shareholding structure of the company is very dispersed. As of March 2023, only three shareholder groups held more than 5% of shares. The largest individual shareholder is the company's CEO – Mr Andrea Cattaneo, who holds 7.2% of shares. The free float is about 78%.

Chart 1. Zenith Energy Ltd – shareholder structure



Source: Zenith Energy Ltd

Company's history and primary business activity

Zenith Energy Ltd was established and registered in British Columbia, Canada, in September 2007, initially operating under the name Canoel International Energy Ltd. The Company's name was subsequently changed to Zenith Energy Ltd on September 30, 2014. Serving as the parent company of the group, Zenith Energy functions as a holding company, conducting its operations through various subsidiaries. The primary focus of the group is international oil and gas production, development, and exploration.

Currently, Zenith holds a portfolio of oil and gas assets in Italy and Tunisia. Until June 2020, the Company also maintained investments in Azerbaijan. The decision to exit Azerbaijan was primarily driven by challenging geological conditions in the oilfield, unreliable historical field data and poor well conditions. In February 2023, Zenith made the decision to discontinue its operations in the Republic of the Congo. This was due to Zenith Congo not being granted the Tilapia II licence. Nevertheless, the management continues to view the potential recovery of USD 5.7 million from the state oil company SNPC as a compelling opportunity. Zenith Energy did not calculate any 'business combination' at the time of the acquisition and leaving the country will not have any material impact on the company's financial situation.

In 2022 Zenith Energy submitted an offer to the Ministry of Water and Mines of the Republic of Benin, seeking a nine-year license to operate an oilfield in Benin. However, in August 2023, the Board of Directors of Zenith took a cautious view of the situation in the area following the military putsch in the nearby Republic of Niger, where a militia leader removed the democratically elected president. As a result, Zenith Energy decided to withdraw from Benin. The instability caused by the putsch could disrupt oil production and transportation in the region, including the operation and maintenance of the pipeline. Additionally, the Economic Community of West African States (ECOWAS) imposed unprecedented financial sanctions against the putsch leaders in Niger, which could impact Niger's economy and potentially disrupt oil production in the region.

In January 2023, Zenith Energy expressed its interest in entering the oil market of the Republic of Yemen through Zenith Energy Netherlands. However, the project faced insurmountable obstacles due to the significant unreliability of the Yemeni authorities, leading Zenith Energy to withdraw.

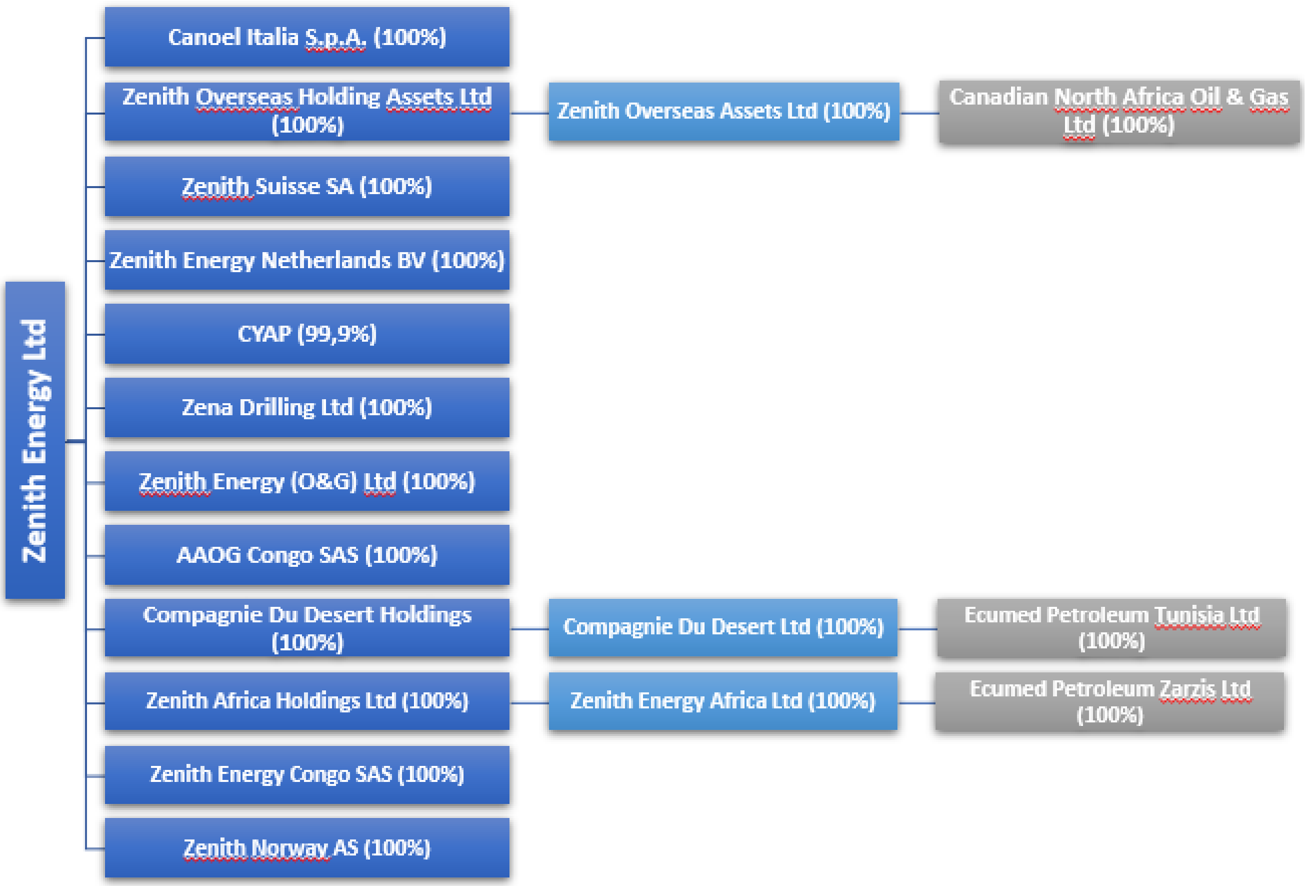
In June 2023, Zenith Energy Ltd entered into a memorandum of understanding ('MOU') with the Ministry of Petroleum in the Republic of South Sudan. The objective of the MOU is to formalize ongoing negotiations with the Ministry of Petroleum regarding the acquisition and development of oil and gas production licenses situated in the Republic of South Sudan. The negotiations are currently in progress.

Zenith also intends to purchase a collection of mineral leases and oil and gas wells in the states of Texas and Oklahoma, located in the United States of America. In Oklahoma specifically, Zenith plans to acquire 1,919 net acres in Pottawatomie and Seminole Counties, along with 887 acres of surface ownership.

In August 2023, Zenith Energy acquired control of Cyber Apps World Inc. ('CYAP'), a company listed on the US OTC Markets' Pink Open Market segment. CYAP operates in software development industry, but Zenith Energy has announced plans to exit this sector at the appropriate time. Zenith Energy’s strategy includes renaming CYAP and using it as a vehicle for acquiring energy production and development opportunities in the USA following the appointment of a new Board reflecting its new ownership structure.

In September 2023, Zenith Energy signed a Memorandum of Understanding (MOU) with a company incorporated in Kazakhstan. This company holds a 100% interest in an oil production asset located in the Atyrau Region of Kazakhstan. The MOU grants Zenith an exclusive ninety-day period to assess the potential acquisition of this asset. Additionally, Zenith entered into a second MOU with a company that owns a 100% interest in two nearby oil development assets in the Kyzylorda Region of Kazakhstan. A third MOU was also signed with a company holding a 100% interest in an oil production and development asset located in the Atyrau Region.

Chart 2. Zenith Energy Ltd – holding structure



Source: Zenith Energy

Zenith Energy Ltd holding consists of the following companies:

- **Canoel Italia S.p.A.** (Italy, operator) – it operates or has working interests in a number of energy production assets producing natural gas, condensate and electricity in Italy;
- **Zenith Overseas Holding Assets Ltd** (UK, holding company) – it holds, through Canadian North Africa Oil & Gas Ltd an undivided 22.5% interest in the Sidi El Kilani concession in Tunisia;
- **Zenith Suisse SA** (Switzerland, service company);
- **Zenith Energy Netherlands BV** (the Netherlands, holding company) – through this wholly-owned subsidiary, Zenith holds a 45% working interest in the North Kairouan permit and Sidi El Kilani concession located in Tunisia;
- **Cyber Apps World Inc.** (CYAP, USA, holding company) – company formerly engaged in software development. Zenith Energy has appointed a new Board of Directors to reflect its new ownership and has announced its intention to rename CYAP. CYAP will be used to acquire energy production and development opportunities in the USA;

- **Zena Drilling Ltd** (UAE, oilfield service company) – a fully owned subsidiary providing international oilfield services;
- **Zenith Energy (O&G) Ltd** (UK, service company);
- **Anglo African Oil & Gas Congo SAS** (Congo, operator) – the company held a 56% majority interest in the now-expired Tilapia oilfield in the Republic of the Congo;
- **Compagnie Du Desert Holdings** (UK, holding company) – it holds through Ecumed Petroleum Tunisia Ltd a 100% interest in the El Bibane and Robbana concessions in Tunisia;
- **Zenith Africa Holdings Ltd** (UK, holding company) – it holds through Ecumed Petroleum Zarzis Ltd a 45% interest in the Ezzaouia concession in Tunisia;
- **Zenith Energy Congo SAS** (Congo, operator) – established with the purpose to receive a new 25-year license to operate the Tilapia oilfield in the Republic of the Congo;
- **Zenith Norway AS** (Norway).

Business model

Zenith Energy Ltd operates as a junior international oil and gas production company. Its upstream business is mainly focused on the development of marginal oil and gas fields, rather than exploration. The company's strategy revolves around identifying assets that are 'drill-ready' and possess substantial near-term production potential.

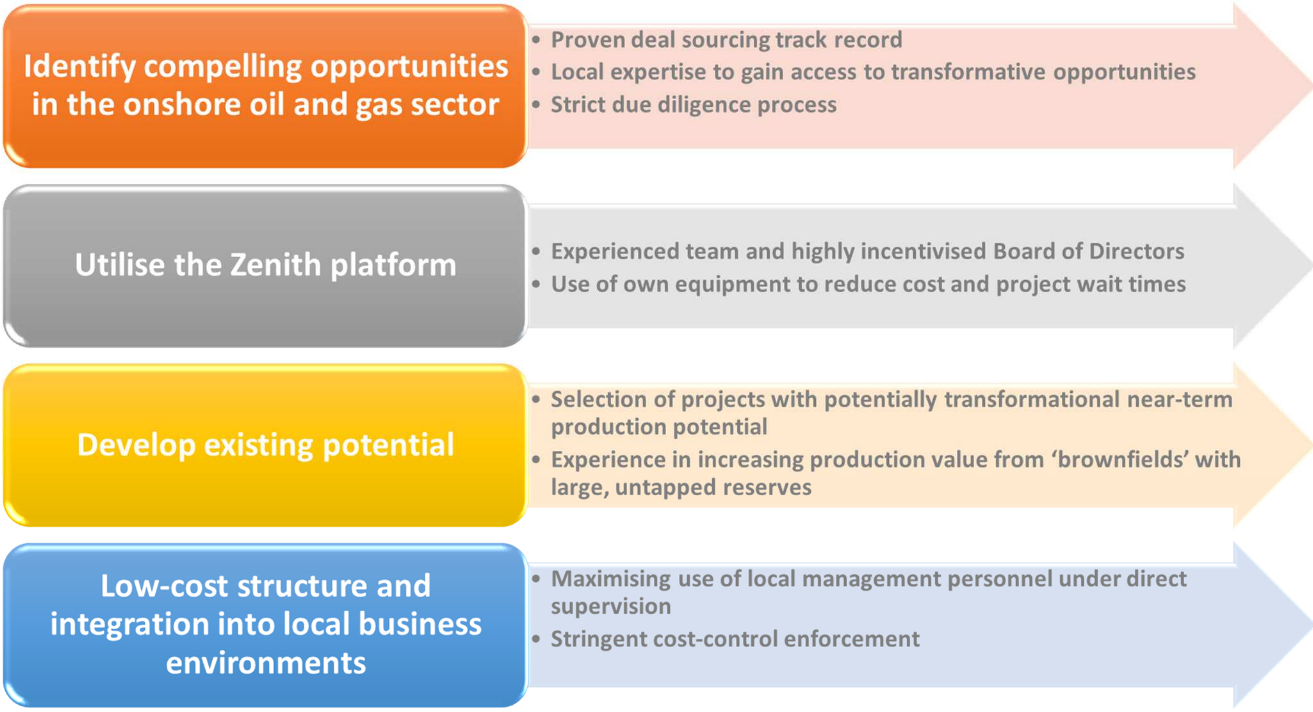
Zenith engages in natural gas production in Italy and Tunisia, along with crude oil, natural gas, and condensate production in Tunisia. Additionally, in Italy, the company is involved in electricity production and is qualified as an 'alternative energy producer'.

Zenith Energy aspires to evolve into a mid-tier, energy production and exploration company. The development strategy is defined by the following key points:

1) acquisition and revitalization of "brownfields" in mature petroleum provinces with untapped reserves and existing production;
2) maximising revenue by implementing cost-effective oil production models;
3) owning key operational equipment to lower costs, mitigate third-party delays, and reduce dependence on external oilfield service companies.

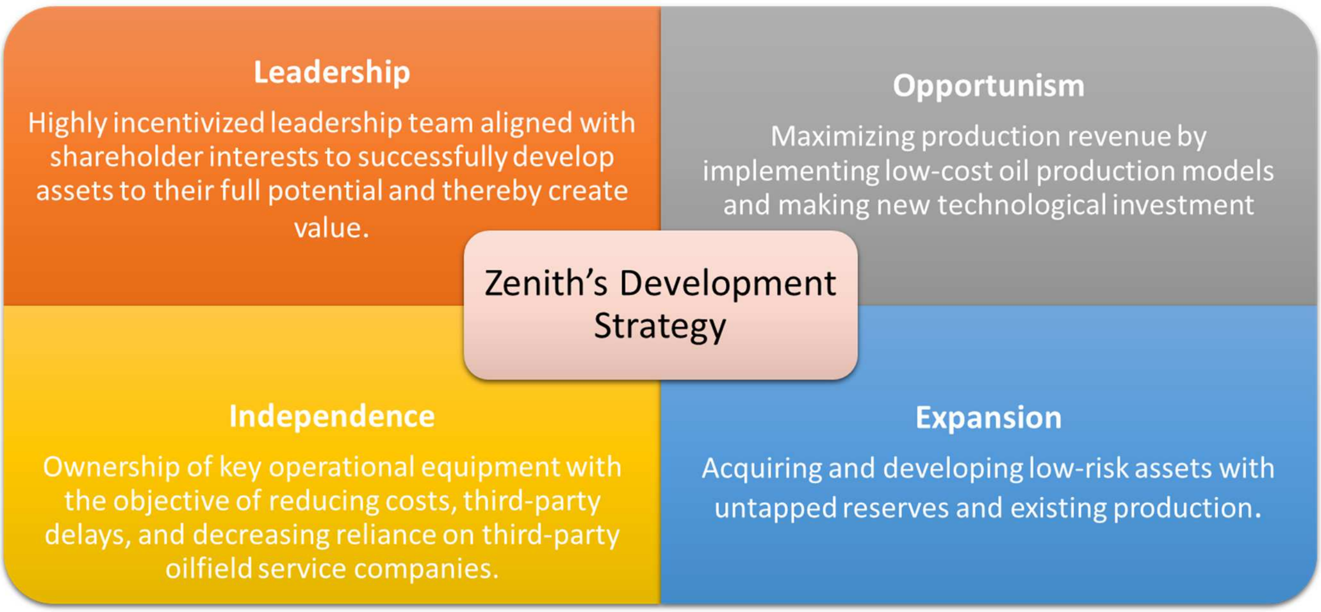
In general, the Company’s business model (due to the specificity of the industry type and geographical regions in which the company operates or intends to operate) should be assessed as characterized by increased or high risk.

Chart 3. Zenith Energy Ltd business model



Source: Zenith Energy

Chart 4. Zenith Energy Ltd - development strategy



Source: Zenith Energy

Management of the company

The Board of Directors of Zenith Energy Ltd consist of the following persons:

- **Dr. Jose Ramon Lopez-Portillo (Chairman and Non-Executive Director)** – an economist by background; he served as minister in the Mexican Federal Government and was a former Independent Chairman of the UN Food and Agricultural Organisation (FAO) Council in Rome. Dr. Lopez-Portillo studied economics at Universidad Anahuac and holds a doctorate in political science and international relations from the University of Oxford.
- **Andrea Cattaneo (Director, President and CEO)** – a proven dealmaker and government advisor with specialized expertise in developing economies. He has over 30 years of financial experience in capital markets and commodity trading between Western and emerging countries. Mr. Cattaneo holds an undergraduate degree in Economics from the University of Genoa and a postgraduate degree in Taxation Law from the University of Bologna. He is one of Zenith's founders.
- **Dr. Dario Ezio Sodero (Non-Executive Director and Chairman of the Audit Committee)** – Dr. Sodero brings 35 years of operational experience in North America, the Sub-Arctic, North Africa and the Middle East. Dr. Sodero has served as an executive director in several TSX listed oil and gas exploration and production companies. He holds a doctorate in Geological Sciences from the University of Turin, Italy.
- **Sergey Borovskiy (Non-Executive Director)** – he has over 25 years of experience in business management in China and Hong Kong. Mr. Borovskiy holds the position of CEO at Sanju Environmental Protection (Hong Kong) Limited, where he oversees international projects for controlling shareholder Sanju Group. The Group specializes in energy purification and environmental protection technologies and is listed on the Shenzhen Stock Exchange. He is also the CEO and Chairman of General Transactions Inc., an oil & gas consulting, engineering, trading, seismic research and exploration services company. Additionally, he serves as Chairman of the Board of Directors at Petro Chemical Solutions and South China Heavy Industries Group. Mr. Borovskiy pursued studies in both China and Russia, holding a degree in economics.
- **Luca Benedetto (Chief Financial Officer, Executive Director)** – he joined Zenith as the Finance Director of the company's Italian subsidiary in 2013 and was subsequently appointed to the position of Group Financial Controller. In 2017, he assumed the position of Chief Financial Officer. Mr Benedetto received his training in Italy as a registered accountant, with further education in IFRS accounting and consolidation at IPSOA Milan. He possesses more than twenty-five years of experience in accounting, auditing and financial administration.

Market / industry

The oil and gas industry ranks among the world's largest sectors in terms of revenue, generating approximately USD 5 trillion in global revenue as of 2022. It holds a pivotal position in the energy market and serves as a primary fuel source for the global economy. The production and distribution processes involved in oil and gas are intricate, capital-intensive and heavily reliant on advanced technology. The industry can be categorized into three primary segments: upstream, midstream and downstream.

- Upstream segment comprises companies engaged in the exploration and production of oil and gas. This involves activities such as drilling, well completion and bringing the oil and gas to the surface.
- Midstream segment involves companies responsible for the transportation, storage, and wholesale marketing of crude or refined petroleum products. This encompasses activities related to pipelines, tankers and storage facilities.
- Downstream segment encompasses companies engaged in the refining of crude oil and the distribution and marketing of natural gas and products derived from crude oil. Activities within this segment include refining, marketing and retailing of petroleum products.

The oil and gas industry operates under a complex framework of federal and state regulations, with various agencies overseeing different aspects of production. Its performance is closely linked to global consumer demand and the production levels of other major players like Saudi Arabia and Russia.

As global economies and infrastructure remain heavily reliant on petroleum-based products, the world's dependence on oil and gas continues to grow. However, the industry faces mounting pressure to address the implications of energy transitions for their operations and business models. Further, there is a growing expectation for companies in the sector to communicate their positions in the societies where they operate.

The oil and gas industry encounters various risks and opportunities. Major risks that oil and gas companies encounter include political risk, geological risk, price risk, supply and demand risks, and cost risks. A more detailed description of risks facing the industry can be found in the 'Additional risk factors' section of the report.

Despite these risks, the oil and gas sector offers opportunities. For instance, there is a consistent demand for energy, with oil and gas fulfilling a significant part of that demand. Some companies have adopted comprehensive risk management programs to mitigate common exposures. Additionally, the industry has the strategic opportunity to transition to renewable energy sources and address the challenge of rising greenhouse gas emissions.

By the end of 2023, Zenith has announced it intends to potentially complete acquisitions in the oil and gas production industry in Kazakhstan. This investment could present a significant opportunity for Zenith, as Kazakhstan is believed to hold substantial untapped oil and gas reserves, thereby offering prospects for exploration and development. Oil and gas production in Kazakhstan is a major sector of the country's economy. Kazakhstan has the 12th-largest proven crude oil reserves in the world with 30 billion barrels of crude oil. Kazakhstan is a member of the OPEC+ group and produces about 1.8 million barrels of oil per day. Most of the oil and gas is exported to other regions, such as China and the European Union.

Kazakhstan is also developing its natural gas sector, which is mostly associated with oil production. The country produces about 38.7 billion cubic meters of natural gas per year and consumes about 18.5 billion cubic meters per year. The surplus gas is exported to China, Russia and other neighbouring countries through pipelines. Kazakhstan also plans to increase its liquefied natural gas (LNG) production and domestic gas network to meet the growing demand for clean energy.

However, Kazakhstan's oil and gas sector faces some challenges, geopolitical risks, environmental issues and technical barriers. Moreover, Kazakhstan has to deal with environmental concerns, such as greenhouse gas emissions, water pollution and land degradation caused by oil and gas extraction. The country also needs to upgrade its infrastructure, technology and skills to enhance its production efficiency and quality.

Despite these challenges, Kazakhstan's oil and gas sector offers many opportunities for foreign investors and exporters. The country has a favourable investment climate, with low taxes, incentives and protection for foreign investors.

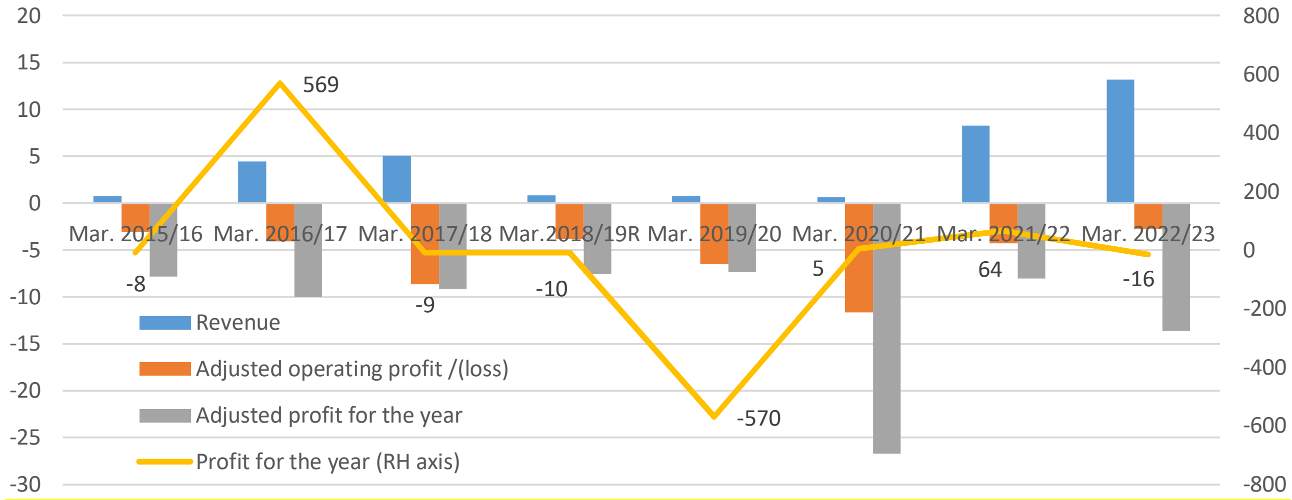
Zenith Energy has also announced plans to invest in the USA. The USA is the world's largest oil and gas producer and has abundant natural resources. The country also has a stable economy, which attracts investors and entrepreneurs. The costs associated with opening a business in the USA are relatively low compared to other countries. The USA also offers a favourable business environment, with various legal safeguards and state support measures. Therefore, the USA is an attractive destination for high growth companies wishing to establish a presence in the oil and gas industry.

Financial analysis

The symbol 'R' (restatement) next to the date indicates that the data has been transformed and taken from the report of the following year due to significant differences, aiming to maintain better comparability. The company's financial year extends until the end of March each year.

Profit and loss account

Chart 5. Zenith Energy – profit and loss account (CAD thousand)



Source: Zenith Energy Ltd financial statements

The chart provided illustrates both the reported annual profit and the adjusted annual profit, accounting for gains and losses related to 'business combinations'. It's important to emphasize that the gain from 'business combinations' heavily depends on estimates, which may substantially differ from actual data and thereby misrepresent the company's outcomes and their analysis. Furthermore, during the 2019/20 fiscal year, the data was revised to accommodate the loss from discontinued operations in Azerbaijan, totalling CAD 580.6 million.

Between 2015/16 and 2017/18, the revenue experienced significant growth, rising from CAD 0.8 million to CAD 5.0 million. This increase was primarily driven by revenue generated from investments in Azerbaijan, which accounted for over 80% of the total revenues by the end of 2017/18.

In 2018/19, the exit from the Azerbaijan investment led to a decrease in revenue to CAD 834 thousand, with the revenue solely coming from Italy. Despite the company beginning to generate a small revenue in Congo (CAD 94 thousand) in 2019/20, there was an overall decline in total revenues. By 2020/21, the revenue further decreased to CAD 596 thousand, although it came from three sources (Congo 76%, Italy 15% and Tunisia 9%).

In 2021/22, there was a notable recovery in revenue, surging to CAD 8.2 million, wherein Tunisia played a dominant role, accounting for 71% of the total revenue, while Italy contributed the remaining 29%. In 2022/23, the revenue continued to increase, reaching CAD 13.2 million, with two-thirds of the income originating from Tunisia and the remaining one-third from Italy.

Despite the revenue growth between 2015/16 and 2017/18, the operating loss has shown a substantial increase from -CAD 3.0 million to -CAD 9.1 million. This can be attributed mainly to rising production, depletion and depreciation costs, along with a much faster increase in general and administrative expenses, particularly consultancy fees, administrative expenses and salaries. Additionally, in 2017/18, the operating loss was further intensified by share-based payments.

From 2018/19 to 2020/21, there was a decline in revenue and during 2019/20 and 2020/21, the production costs exceeded the revenues by a significant margin, leading to a considerable gross loss. Additionally, both general and administrative expenses and non-recurring expenses experienced substantial increases (164% and 136% respectively), resulting in the operating loss rising from CAD -6.6 million in 2018/19 to CAD -18.0 million in 2020/21.

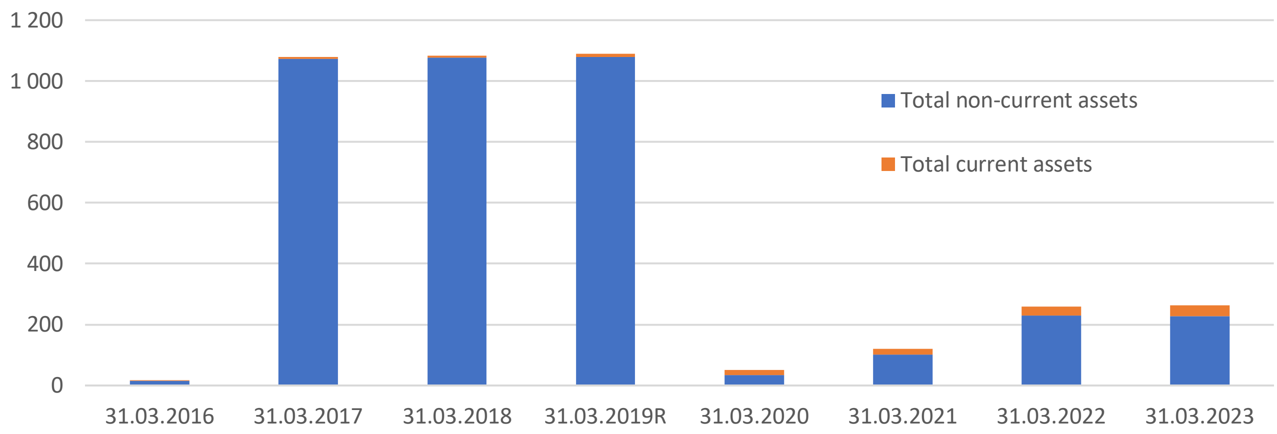
In the financial years 2021/22 and 2022/23, the sales revenue significantly surpassed both production costs and depletion and depreciation costs, enabling the company to achieve a gross profit of CAD 3.8 million in 2021/22 and CAD 2.7 million in 2022/23. During the same period, there was a reduction in general and administrative expenses, as well as non-recurring expenses. Consequently, Zenith managed to decrease its operating loss to CAD -8.7 million in 2021/22 and CAD -5.9 million in 2022/23.

The Company's adjusted comprehensive income to owners has been negative since 2015/16, fluctuating between CAD -7.4 million and CAD -26.7 million. The largest loss was recorded in 2020/21.

Zenith Energy's financial statements have shown a profit from continuing operations between 2019/20 and 2021/22. However, it is important to note that this profit is primarily attributed to the 'gain on business combination'. Due to the uncertain value (based on forecasted cash flows) and the possibility of overvaluation of the assets (as evidenced by the case of assets valuation in Azerbaijan in 2017/18), EuroRating does not include these gains in its analyses.

Balance sheet – assets

Chart 6. Zenith Energy – balance sheet assets (CAD millions)



Source: Zenith Energy Ltd financial statements

Total assets have experienced significant fluctuations over the past few years, primarily driven by changes in the value of property, plant and equipment (PP&E), which have accounted for 67% to nearly 100% of all assets in recent years. Notably, in 2016/17, there was a substantial increase in total non-current assets, attributable to Zenith Aran Oil Company, a wholly-owned subsidiary of the Zenith Energy Group, assuming control of Azerbaijani Operation. As part of this handover, the capital assets of the Azerbaijani Operation were transferred to Aran Oil. The value of development and production (D&P) assets was estimated at CAD 1,065 million, taking into consideration both internal estimates and an independent evaluation of reserves based on oil and gas reserves.

Between 2017/18 and 2018/19, the value of assets remained stable until 2019/20 when the Group underwent a strategic shift, refocusing its geographic area of activities to concentrate on pursuing large-scale oil production and development opportunities in Africa. Consequently, the decision to exit Azerbaijan was primarily driven by challenging geological conditions in the oilfield, unreliable historical field data and poor well conditions.

In June 2020, the Group successfully completed the handover process of the Contract Rehabilitation Area to SOCAR in the Republic of Azerbaijan. As a direct consequence of this handover, Zenith ceased all oil production operations in Azerbaijan and the value of total assets dropped drastically. Between 2020/21-2021/22, the total value of assets witnessed a significant increase, driven by the acquisition of new companies. In March 2021, Zenith Energy Africa Ltd, a newly incorporated fully owned subsidiary, successfully acquired 100% interest in Ecumed Petroleum Zarzis Ltd from Candax Energy Ltd. This acquisition resulted in an almost threefold increase in the value of property, plant and equipment (PP&E).

Furthermore, in April 2021, Zenith's recently incorporated fully owned subsidiary, Compagnie Du Desert Ltd, also acquired 100% interest in Ecumed Petroleum Tunisia Ltd from Candax Energy Ltd. The fair values of the assets acquired in both companies were determined based on the net present value (NPV) of future cash flows, prepared by a third-party valuation service.

At the end of March 2023, both the total value and the structure of assets remained similar to those at the end of March 2022. Almost 87% of the total assets consisted of property, plant & equipment, receivables accounted for 10% of assets, stocks had a 2.5% share, and cash was the equivalent of only 0.5% of total assets.

As of the end of March 2023, both the total value and the structure of assets remained similar to those at the end of March 2022. Almost 87% of the total assets consisted of property, plant & equipment; receivables accounted for 10% of assets; stocks had a 2.5% share; and cash and equivalents (CAD 1.4 million) accounted for only 0.5% of total assets.

When assessing the value and structure of the company's assets, EuroRating points out that the agency is unable to verify the value of fixed assets shown in the balance sheet (consisting mainly of shares in subsidiaries, the value of which was calculated as discounted projected future cash flows). Assuming that the value of fixed assets is estimated correctly, it should be stated that although the dominance of fixed assets is typical for the operations of companies active in the oil and gas extraction industry and the energy sector, in the case of Zenith Energy it is particularly high. Thus, Zenith Energy has few liquid (current) assets, and, specifically, the Company's cash balance is low.

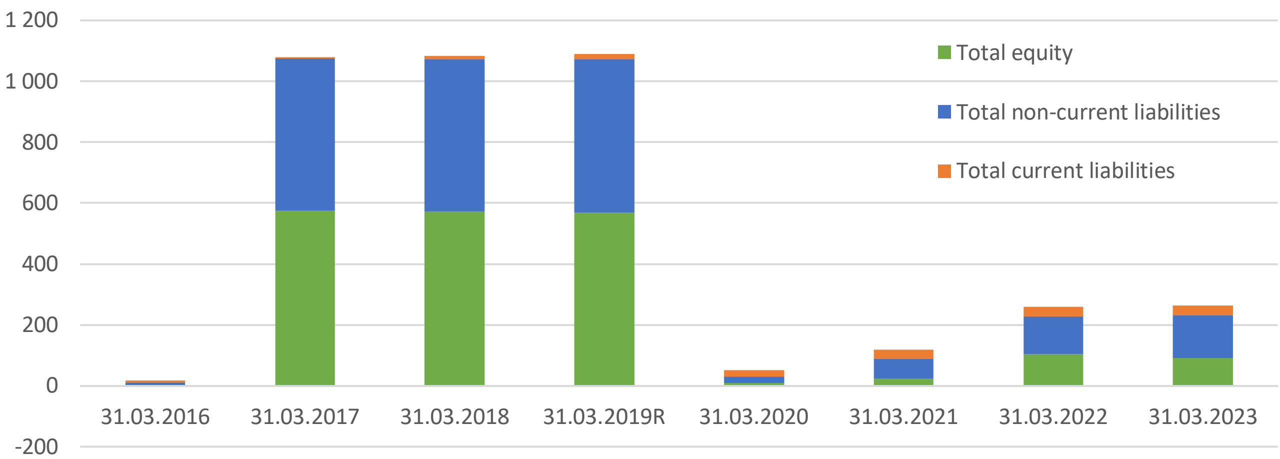
For Zenith Energy, having liquid funds is particularly important, as the company (at the consolidated level) still generates a negative operating result and strongly negative operating cash flows.

EuroRating considers negative the fact that the total value of receivables has increased significantly over the last two financial years (by 82%). Their current value is twice as high as the annual sales revenue for 2022/23 (including trade receivables alone corresponding to the company's annual revenue). These figures may indicate difficulties faced by the group's companies in enforcing payment of receivables by contractors.

Balance sheet – liabilities

In 2016/17, both the total equity and liabilities experienced a rapid uptick, largely due to the growth in equity and non-current liabilities. The increase in equity was a result of the company recording a gain on business combination of CAD 579 million from the acquisition of Azerbaijani Operation. This gain mainly stemmed from the difference between the estimated value of development and production assets, valued at CAD 1,065 million and the capital costs amounting to CAD 479 million.

Chart 7. Zenith Energy – balance sheet equity and liabilities (CAD millions)



Source: Zenith Energy Ltd financial statements

Furthermore, the deferred consideration payable in non-current liabilities (CAD 484 million) was also associated with the acquisition of the Azerbaijani Operation. The deferred consideration payables represent the estimated fair value of all potential future costs, including capital expenditures, operating expenses, general and administrative expenses, and taxes, that the company may incur in developing its assets during a business acquisition. These payables are recognized at the acquisition date. The liability for deferred consideration was measured at the present value of contracted future cash flows. The total amount of liabilities and their composition remained relatively stable between the financial years 2017/18 and 2018/19.

In 2019/20, Zenith Energy made a strategic decision to withdraw from Azerbaijan. Consequently, the results of the subsidiary have been incorporated in the loss of CAD 581 million from discontinued operations, as reflected in the statement of comprehensive income. This significant loss had a considerable negative impact on the value of equity. Additionally, the company wrote off the deferred consideration payable in liabilities, reducing non-current liabilities substantially.

During the years 2020/21-2021/22, the value of equity witnessed a rise primarily driven by the recorded profits and issues of Zenith's new shares. Notably, the share capital increased by CAD 19.7 million between March 2020 and March 2022. Moreover, the retained earnings also experienced significant growth during the same period, increasing from CAD -35.9 million to CAD 32.9 million, (i.e. a rise of a total CAD 68.8 million).

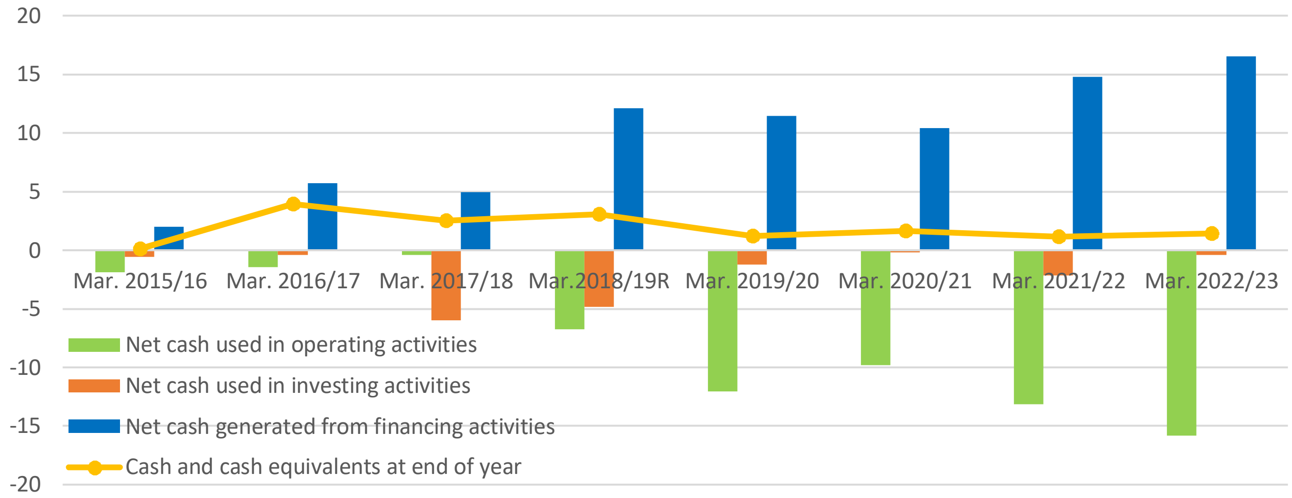
However, it should be noted, that the net profits recorded in 2020/21 and in 2021/22, were almost entirely the result of the profit from the business combination (at the operating result level, the company generated losses).

As of the end of March 2023, total liabilities amounted to CAD 171.2 million and accounted for 65% of the balance sheet total. The liabilities in the vast majority (over 80%) consisted of long-term liabilities, the largest item of which were non-interest bearing liabilities ('deferred consideration payable', 'decommissioning provision', and 'deferred tax liabilities'). The value of long-term non-convertible bonds at the end of March 2023 amounted to PLN 25.2 million (which corresponded to 9.6% of total liabilities and equity).

Short-term liabilities (CAD 31.2 million) consisted mainly of trade and other payables (CAD 19.7 million) and loans (CAD 8.7 million).

Cash flow

Chart 8. Zenith Energy – cash flow (CAD million)



Source: Zenith Energy Ltd financial statements

Since 2015/16, the cash flow from operating activities has consistently shown negative values, ranging from CAD -15.8 million to CAD -0.4 million. In 2016/17, the reported profit before taxation amounted to CAD 571.7 million, however, this gain was merely a valuation (gain on business combination) and did not result in any cash inflow, thus it had no impact on the cash from operating activities. Similarly, in 2019/20, the reported loss of CAD -570.3 million before taxation was balanced out due to its treatment as discontinued operations, resulting in no effect on the cash flow from operating activities.

The cash flow from investing activities has also consistently shown negative values in all financial periods, ranging from CAD -6.0 million to CAD -0.2 million. These negative cash flows primarily stem from cash outflows related to investments in purchasing property, plant and equipment.

During the fiscal years 2017/18 and 2018/19, the Company made significant financial commitments towards acquiring property, plant and equipment. These investments were primarily focused on Azerbaijan, the geographical hub of the company's oil production. Zenith Energy procured equipment totalling EUR 9 million during this period. Presently, this equipment is held in storage within Georgia, awaiting relocation to another country where the Company has planned future investments.

To offset the negative cash flows from operating and investing activities, Zenith Energy has relied significantly on proceeds from the issue of shares. The company has issued shares practically every year, ranging from CAD 1.1 million to CAD 10.7 million in recent years.

In 2016/17, the level of cash registered a significant increase compared to 2015/16 and fluctuated between CAD 2.5 million and CAD 3.9 million in the years 2016/17-2018/19. However, in the years 2019/20-2022/23, despite higher cash inflows from share issues, the level of cash at the end of the year declined to CAD 1.2-1.6 million.

Ratio analysis

Margins and profitability

Table 1. Zenith Energy – margin & profitability ratios

Margin & profitability	March 2015/16	March 2016/17	March 2017/18	March 2018/19	March 2019/20	March 2020/21	March 2021/22	March 2022/23
Gross margin on sales	-36%	2%	-47%	-15%	-337%	-310%	46%	20%
EBITDA margin	-351%	0%	-128%	-410%	-27%	-29%	-2%	15%
Operating margin	-385%	-1%	-172%	-461%	-31%	-31%	-5%	-21%
Net margin (normalised)	-974%	-1%	-190%	-657%	-35%	-75%	-9%	-78%
Return on assets (ROA)	-47%	-1%	-1%	-1%	-1%	-33%	-4%	-4%
Return on equity (ROE)	N/A	-3%	-2%	-1%	-3%	-159%	-13%	-14%

Source: EuroRating based on the Zenith's consolidated financial statements

The gross margin on sales until 2021/22 was almost constantly negative (in 2018/19 and 2019/20 even deeply negative). The negative gross result on sales indicated that the company's sales income was insufficient to even cover the cost of goods sold. However, it should be assessed positively that thanks to a jump in revenues in the recent two financial years the gross result on sales was high positive, which is reflected in a high gross margin on sales.

In addition, both EBITDA margin and operating margin until 2021/22 were high negative. In the recent two financial years EBITDA and the operating profit improved significantly, which was at the same time the result of a strong increase in sales revenues, as well as a decrease in operating costs. It should be noted, however, that the improvement in the results in 2022/23 was largely related to the reported foreign exchange gain (CAD 6 million).

Despite the large improvement in revenues in the recent two financial years, the operating costs incurred recently were still much higher than the gross result on sales, as a result of which the company continued to generate a loss at the level of the operating result. The net result was additionally burdened with increasing financial costs (mainly composed of interest on issued bonds) and after its normalisation (i.e., adjusting for one-off non-operating items – 'gain on business combination') it was still negative.

The constant negative normalised net results translated to negative values of ROA and ROE ratios, which show that the company so far throughout its history has not been able to generate positive value for shareholders.

Financing

Table 2. Zenith Energy – financing ratios

Financing	March 2016	March 2017	March 2018	March 2019R	March 2020	March 2021	March 2022	March 2023
Equity / Balance sheet total	-0.14	0.53	0.53	0.52	0.19	0.20	0.40	0.35
Liabilities / Balance sheet total	1.14	0.47	0.47	0.48	0.81	0.80	0.60	0.65
Coverage of non-current assets	0.55	1.00	0.99	0.99	0.87	0.89	0.99	1.01
Net financial debt / Equity	-	0.00	0.01	0.02	0.77	0.47	0.17	0.35

Source: EuroRating based on the Zenith's consolidated financial statements

At the end of March 2016, the equity to balance sheet total ratio was negative, primarily because the equity was burdened with the negative value of retained earnings from previous years. In the financial years from 2016/17 to 2018/19, the ratio's value exceeded 0.5. While both the increase and the level of the ratio could be seen as positive, it is important to note that the increase was influenced by a very large one-time gain on business combination (positive valuation of investments). However, this valuation was significantly overstated – when the company exited from Azerbaijan, the entire gain from 2016/17 was written off in 2019/20. As a result, the equity to balance sheet total ratio in 2019/20 and 2020/21 fluctuated around a low level of 0.2. In 2019/20, 2020/21 and 2021/22, the company recorded another significant gains on business combination (largest in 2021/22), which allowed the company to record a positive net results (in 2020/21 and 2021/22), thanks to which (together with issuance of new shares) the equity increased substantially and its share in the balance sheet total grew to 0.4 in value to 0.4 at the end of 2021/22. Due to a net loss generated in 2022/23, the equity decreased again and the ratio declined to 0.35.

When analysing the 'Equity / Balance sheet total' ratio, it is crucial to consider the main driver of the amount of the Zenith's total assets and at the same time of the equity, which are the 'gains on business combination'. It should be noted, that the evaluations of the Group's tangible assets (mainly oil and gas extraction operations) may be a subject to a considerable error, as evident in the significant write-off made by the company in 2019/20. Therefore, both the values of equity and of its share in the balance sheet total may be subject to significant fluctuations unrelated to the results achieved on the company's operating activities.

The ratio of a coverage of non-current assets by the long-term capital (equity + long-term liabilities) oscillated in the range of 0.9-1.0 in recent years. Generally, a level above 1.0 is considered safe. Thus, the ratio indicates the possibility of occurrence of a liquidity stress in the future, if it does not increase in subsequent quarters.

Net debt to equity ratio in the recent two financial years can be assessed as relatively low. However, it is essential to consider the significant impact of the 'gain on business combination' on the Zenith's total assets and equity value. As of March 2023, the total financial debt (loans and bonds) accounted for 13% of the balance sheet total. It should however be noted that the company held only CAD 1.4 million cash and the short-term loans were in the amount of CAD 8.7 million. A repayment of financial liabilities therefore depends on the company's ability to recover high receivables or to raise external capital (by issuing shares or bonds).

Efficiency

Table 3. Zenith Energy – efficiency ratios

Efficiency	March 2016	March 2017	March 2018	March 2019R	March 2020	March 2021	March 2022	March 2023
Asset turnover	0.00	0.01	0.00	0.00	0.00	0.01	0.04	0.05
Inventory rotation (days)	80	13	11	73	237	1 062	246	207
Trade receivabl. rotation (days)	219	83	122	692	1 007	1 376	138	225
Trade payables rotation (days)	1 507	255	390	4 116	6 771	9 617	639	369
Cash conversion cycle (days)	-1 208	-159	-257	-3 352	-5 527	-7 179	-255	62

Source: EuroRating based on the Zenith's consolidated financial statements

Throughout its history, Zenith Energy has generated negligible sales revenues in relation to the assets involved, which is reflected in the very low values of the asset turnover ratio. This means that the assets held by the Company have not been generating significant revenues that could contribute to covering the operating costs incurred and improve cash flows. The situation has slightly improved during the last two financial years. However, the relation of annual sales revenue to the total assets is still low.

Over the last four years, the inventory rotation ratio was high, which was related to the increase to relatively high levels of inventories. This is disadvantageous because the Company has to finance inventory for prolonged durations of time, which increases the need for working capital. The Company also has a long rotation cycle of trade receivables, which means that it finances its clients, which additionally burdens the company's liquidity position.

The long rotation cycle of inventories and trade receivables is financed by the Company to a large extent through a very long time in which it repays its trade liabilities. The rotation period of trade payables, which has recently been still over a year, may indicate that Zenith Energy will have problems with the timely payments resulting from the current operating activity.

Liquidity

Table 4. Zenith Energy – liquidity ratios

Financing	March 2016	March 2017	March 2018	March 2019R	March 2020	March 2021	March 2022	March 2023
Current liquidity	0.18	1.33	0.44	0.51	0.79	0.62	0.91	1.11
Quick liquidity	0.16	1.30	0.42	0.51	0.76	0.54	0.64	0.90
Cash liquidity	0.02	0.91	0.24	0.18	0.06	0.05	0.04	0.05
Cash cover. of short term debt	0.04	4.03	3.88	0.77	0.53	0.17	0.17	0.17

Source: EuroRating based on the Zenith's consolidated financial statements

The liquidity position of Zenith Energy in recent years has been generally weak. It should be noted, however, that in the two recent financial years the liquidity has improved (which to a large extent was a result of the jump of sales revenue), which should be assessed positively.

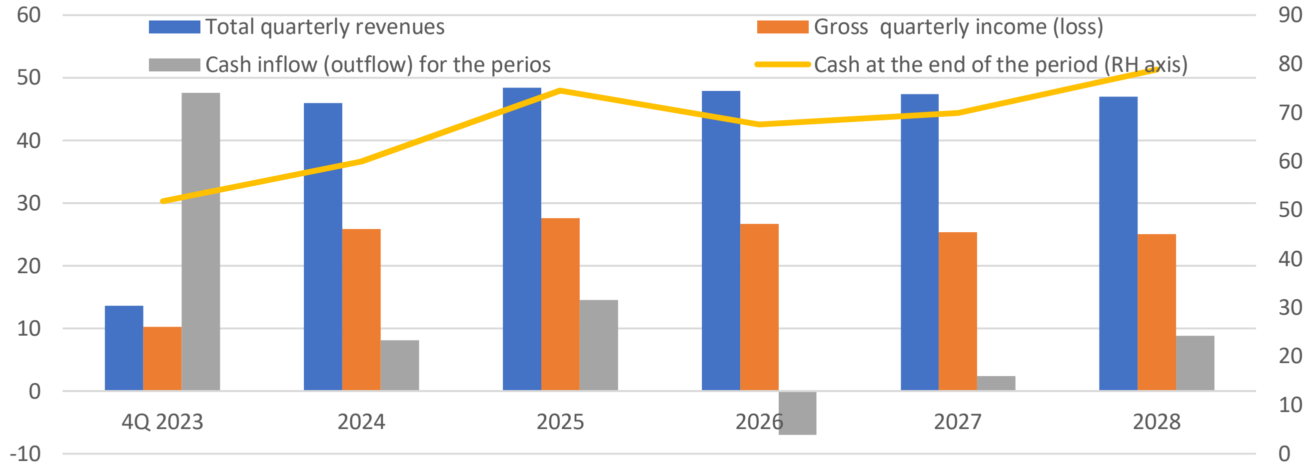
As of the end of March 2023 the current liquidity and quick ratio reached levels that could be considered satisfactory. However, the cash liquidity ratio is still of a low level, which means that liquidity stress may still occur periodically. The tight liquidity situation of Zenith Energy is also indicated by the ratio of cash to short-term interest-bearing liabilities.

Analysis of financial forecasts

The forecasts of revenues, income and cash flows presented in this section of the report have been prepared by Zenith Energy. EuroRating was not able to verify the correctness and reliability of the assumptions adopted in the forecast, therefore the agency reserves, that it cannot accurately assess the probability of realization of the forecasts presented by the Company.

Zenith Energy's forecasts include financial projections of the Company's core consolidated financial figures for the 4th quarter of 2023 and for the years 2024-2028. The forecasts have been prepared in USD because it is the most widely used currency in the oil industry.

Chart 9. Zenith Energy – quarterly cash flow forecast (USD million)



Source: Zenith Energy Ltd forecasts

For the fourth quarter of 2023, Zenith Energy forecasts revenues of USD 13.6 million. It's noteworthy that 68% of these revenues are predicted to originate from Tunisia, where Zenith plans to have 116,000 barrels of oil in storage by the end of October 2023.

From 2024 to 2028, the Company foresees reasonably consistent revenues in the range of USD 46 to 48 million.

In the upcoming years, Zenith Energy has forecast an increase in production costs. In the fourth quarter of 2023, production expenses are projected to amount to USD 1.1 million (for 3 months) and as per forecasts, these costs will be evenly distributed across the four countries where the Company generates revenue. From 2024 to 2028, a growth in production expenses is expected, increasing from USD 12.9 million to USD 15.4 million per year.

Administrative expenses for the fourth quarter of 2023 are predicted to amount to USD 2.3 million, of which 84% (USD 1.9 million) will be attributed to Canada. The high administrative costs are primarily due to the repayment of financial interest, totalling USD 1 million, as well as the payment of bond interest amounting to USD 0.5 million during this period.

Zenith's projections for the period from 2024 to 2028 estimate that administrative costs will be in the range of USD 6.3 to 7.1 million. During this time frame, the Company predicts a decrease in the share of forecasted expenses allocated to Canada, dropping from 49% to 32%. The significant portion of administrative expenditures in Canada is primarily attributed to interest payments on loans and bonds.

In the Company's forecast, it is anticipated that in the fourth quarter of 2023 the total projected costs will amount to USD 3.4 million, while the gross income for the three months will reach USD 10.2 million. Looking ahead to the next five years, Zenith projections indicate that annual total costs will fluctuate within the range of USD 20.2 million to USD 22 million, with annual gross income expected to oscillate between USD 25 million and USD 27.6 million.

The expected capital expenditure (Capex) for the fourth quarter of 2023 is projected to reach USD 2.3 million, with 55% of this budget allocated to investments in Kazakhstan. Looking ahead to 2024, the Company anticipates an increase in Capex to USD 6.5 million. From 2025 to 2028, the Company's Capex is forecasted to remain consistent.

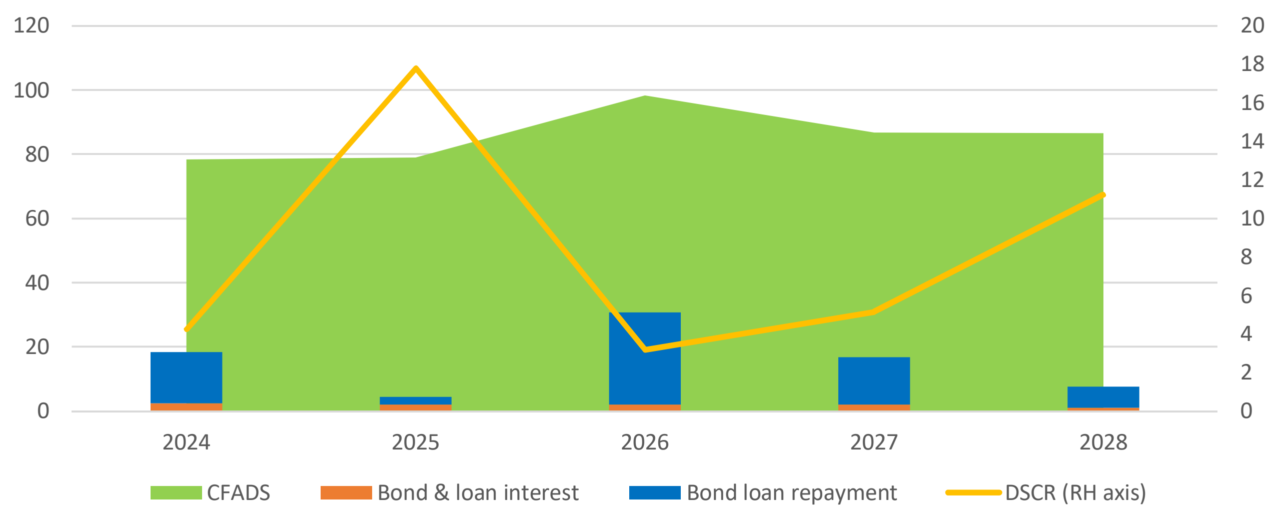
In the fourth quarter of 2023, the Company expects its cash reserves to increase significantly, starting at USD 4.2 million at the beginning of the quarter and reaching USD 51.8 million by the end of December 2023. This expected cash boost can be mainly attributed to financing activities.

In the years 2024-2028, the projected year-end cash balance is expected to fluctuate between USD 60 million and USD 78.8 million.

EuroRating expresses a positive assessment of the stable forecasted revenues. Another positive aspect of the assessment is the high cash level, which should enable the Company to cover interest payments on bonds and loans, as well as to repay the loans and redeem bonds upon maturity, which is presented in CFADS analysis below.

To assess a company's ability to generate sufficient cash flow to meet its debt obligations the financial metric Cash Flow Available for Debt Service (CFADS) is used. CFADS helps determine whether a company has enough cash flow to make interest payments and repay its debt obligations. By analysing CFADS, the company's ability to service its debt can be assessed. It also helps investors and the company management to assess financial performance, plan debt repayment and make informed decisions regarding debt financing and investments.

Chart 10. Zenith Energy – forecasted cash flow available for debt service



Source: EuroRating

Debt Service Coverage Ratio (DSCR) is a financial metric used to assess the ability of a company to cover its debt obligations with available cash flow. The DSCR ratio is calculated by dividing the cash flow available for debt service (CFADS) by the total debt service payments. The DSCR ratio provides an indication of the company's capacity to generate enough cash flow to meet its debt obligations.

According to Zenith Energy’s forecasts, in 2024-28 cash flow available for debt service will fluctuate from USD 78.4 million to USD 98.4 million. In 2026, Zenith will have the most to repay, this year the company is forecasted to have to buy back USD 20 million bonds and repay other financial liabilities in the amount of USD 8.8 million. According to the forecasts, the cash flow available for debt service will amount to USD 98.4 million and the DSCR ratio will oscillate around 3.2, which will be the lowest level in the projected years 2024-2028.

Additional risk factors

Commodities prices volatility: The oil and gas industry is highly influenced by market price fluctuations. The prices of oil and gas can be influenced by geopolitical events, supply and demand dynamics, global economic conditions and many other factors. Sudden negative changes in oil and gas prices can impact Zenith's revenue and profitability.

Foreign exchange risk: Given that the Brent price is usually quoted in USD, the Italian electricity is in EUR, and the company also has debt instruments in various currencies, the various FX rates could also have an impact on the company financial performance. At present the company does not have any currency hedges in place.

Geological risks: The performance of any oil field inherently carries a geological risk. Typically, the risks decrease over time, as more data is available from the field's production. The risks associated with the estimated production performance and the reserves in the field are typically higher at early stage of the field's life and development.

Regulatory and environmental risks: The oil and gas sector is experiencing a significant impact from various legislative initiatives related to the environment and the energy sustainability. There is also a notable impact on the investors' sentiment towards the sector. An event of a breach of any environmental or regulatory requirements may result in negative reputational, financial, operational or other consequences for the Group.

Governmental regulations: As a participant in the oil industry Zenith Energy may be exposed to various governmental initiatives that may arise and have impact on the industry as a whole. Government intervention and regulation may have a material adverse effect on the Company's business.

Political risk: The Italian assets carry a lower political risk, but African assets are still exposed to high political risks including: political instability, civil unrest, armed conflicts, corruption and bribery, changing regulatory environment, expropriation and nationalization, currency fluctuations and unpredictable leadership changes. Therefore, Zenith Energy's Board of Directors has decided to move its attention away from countries characterized by increased economic and political uncertainty toward countries with a different degree of stability, substantially de-risking the company's operations.

Financial risks: As a business involved in capital-intensive projects, Zenith Energy faces financial risks related to funding its operations and investments. Market conditions, interest rates and access to capital may have an impact on the Company's financial stability.

Competition: The oil and gas industry is highly competitive, with many players vying for market success. Zenith Energy may face competition from larger and more established companies, which will affect its ability to secure contracts and access new opportunities.

Reserves and production risks: Developing marginal fields may involve uncertainties in estimating reserves and production rates. If actual production falls short of projections, it can impact revenue and profitability.

Energy transition risks: As the world moves towards clean energy sources, there is a growing focus on reducing carbon emissions. This transition to a low-carbon economy may affect the demand for fossil fuels, potentially impacting Zenith's business model and long-term growth prospects.

Zenith Energy Ltd – Financial Statements

Table 5. Zenith Energy Ltd – Profit and Loss Account (CAD'000)

Financial year ended:	March 2017	March 2018	March 2019R	March 2020	March 2021	March 2022	March 2023
Revenue	**4,424**	**5,019**	**834**	**735**	**596**	**8,239**	**13,159**
Production costs	-3,033	-5,160	-530	-2,364	-1,651	-2,217	-5,750
Depletion and depreciation	-1,299	-2,221	-425	-846	-790	-2,242	-4,747
Gross profit/loss	**92**	**-2,362**	**-121**	**-2,475**	**-1,845**	**3,780**	**2,662**
Administration expenses	-4,155	-6,767	-6,429	-6,991	-16,201	-12,526	-8,596
General and admin. expenses	-4,155	-6,280	-3,723	-4,021	-9,827	-8,063	-5,472
Non-recurring expenses	-	-487	-2,706	-2,970	-6,374	-4,463	-3,124
Operating profit/loss	**-4,063**	**-9,129**	**-6,550**	**-9,466**	**-18,046**	**-8,746**	**-5,934**
Gain on business combination	**578,995**	**-**	**-**	**20,111**	**36,491**	**75,907**	**-**
Other gains and losses	427	-	-	1,425	-13,466	-145	-3,115
Impairment	-2,985	-	-	-	-	-	-
Finance expense	-633	-789	-1,121	-1,742	-1,451	-2,278	-3,161
Profit for the year before taxation	**571,741**	**-9,918**	**-7,671**	**10,328**	**3,528**	**64,738**	**-12,210**
Taxation	-	-	-1	-4	-3	-301	-617
Profit for the year from continuing operations	**571,741**	**-9,918**	**-7,672**	**10,324**	**3,525**	**64,437**	**-12,827**
Profit/loss from discontinued operations, net of tax	**-4,363**	**-**	**-**	**-**	**-**	**-**	**-**
Other comprehensive income for the year, net of tax	**1,595**	**422**	**-2,090**	**-580,633**	**1,054**	**-183**	**-3,310**
Total comprehensive income for the year for to owners	**568,973**	**-9,496**	**-9,762**	**-570,309**	**4,579**	**64,254**	**-16,137**

Source: Zenith Energy Ltd financial statements

Table 6. Zenith Energy Ltd – Balance Sheet – Assets (CAD'000)

Assets	March 2017	March 2018	March 2019R	March 2020	March 2021	March 2022	March 2023
Property, plant and equipment	1,072,933	1,077,445	1,079,639	34,305	100,482	229,774	227,565
Financial assets at amortised cost	401	441	422	13	12	752	780
Total non-current assets	**1,073,334**	**1,077,886**	**1,080,061**	**34,318**	**100,494**	**230,526**	**228,345**
Inventory	138	177	156	799	2,669	8,446	6,448
Trade and other receivables	1,700	1,908	5,413	14,746	14,642	19,175	26,676
Cash and cash equivalents	3,924	2,497	3,058	1,220	1,631	1,153	1,442
Total current assets	**5,762**	**4,582**	**8,627**	**16,765**	**18,942**	**28,774**	**34,566**
Total assets	**1,079,096**	**1,082,468**	**1,088,688**	**51,083**	**119,436**	**259,300**	**262,911**

Source: Zenith Energy Ltd financial statements

Table 7. Zenith Energy Ltd – Balance Sheet – Liabilities (CAD'000)

Liabilities	March 2017	March 2018	March 2019R	March 2020	March 2021	March 2022	March 2023
Share capital	17,229	22,792	28,866	40,400	48,017	60,121	64,087
Share warrants & option reserve	1,877	875	1,147	1,010	2,465	5,284	5,329
Contributed surplus	2,332	3,390	4,125	4,320	4,643	4,753	5,441
Retained earnings	554,009	544,837	534,943	-35,901	-31,322	32,932	16,795
Total equity	**575,447**	**571,894**	**569,081**	**9,829**	**23,803**	**103,090**	**91,652**
Loans	4,527	4,949	3,417	2,260	920	1,442	-
Non-convertible bonds	385	-	4,759	4,273	2,500	10,076	25,247
Deferred consideration payable	484,034	483,616	483,178	-	42,238	67,372	67,372
Deferred tax liabilities	2,398	2,398	2,398	-	2,398	14,231	14,231
Decommissioning provision	7,980	9,140	9,089	13,543	16,219	30,901	32,645
Retirement provision	-	-	-	50	1,005	585	606
Total non-current liabilities	**499,324**	**500,103**	**502,841**	**20,126**	**65,280**	**124,607**	**140,101**
Trade and other payables	2,912	9,238	12,115	18,832	21,028	22,074	19,749
Loans	973	237	3,776	2,210	4,359	6,533	8,697
Non-convertible bonds	-	407	199	86	4,966	284	-
Deferred consideration payable	440	589	676	-	-	2,712	2,712
Total current liabilities	**4,325**	**10,471**	**16,766**	**21,128**	**30,353**	**31,603**	**31,158**
Total liabilities	**503,649**	**510,574**	**519,607**	**41,254**	**95,633**	**156,210**	**171,259**
Total liabilities + equity	**1,079,096**	**1,082,468**	**1,088,688**	**51,083**	**119,436**	**259,300**	**262,911**

Source: Zenith Energy Ltd financial statements

Table 8. Zenith Energy Ltd – Cash Flow Statement (CAD'000)

Financial year ended:	March 2017	March 2018	March 2019R	March 2020	March 2021	March 2022	March 2023
Net cash used in operating activities	**-1,459**	**-430**	**-6,754**	**-12,061**	**-9,813**	**-13,130**	**-15,844**
Net cash used in investing activities	**-401**	**-5,971**	**-4,827**	**-1,242**	**-202**	**-2,165**	**-430**
Net cash generated from financing activities	**5,710**	**4,974**	**12,142**	**11,465**	**10,426**	**14,817**	**16,563**
Net cashflow from discontinued operations	-59	-	-	-	-	-	-
Net (decrease)/increase in cash and cash equivalents	**3,791**	**-1,427**	**561**	**-1,838**	**411**	**-478**	**289**
Foreign exchange	-5	-	-	-	-	-	-
Cash and cash equivalents at beginning of year	**138**	**3,924**	**2,497**	**3,058**	**1,220**	**1,631**	**1,153**
Cash and cash equivalents at end of year	**3,924**	**2,497**	**3,058**	**1,220**	**1,631**	**1,153**	**1,442**

Source: Zenith Energy Ltd financial statements

Rating scale applied by the EuroRating credit rating agency

Rating	Risk description
AAA	Negligible credit risk. Highest level of financial credibility. Rating assigned exclusively where an entity has extremely strong capacity to meet financial commitments.
AA+ AA AA-	Very low credit risk. Very high level of financial credibility. Very strong capacity to meet financial commitments. Low susceptibility to adverse economic conditions.
A+ A A-	Low credit risk. High financial credibility and capacity to meet financial commitments. Average resistance to long-term unfavourable economic financial conditions.
BBB+ BBB BBB-	Moderate credit risk. Good financial credibility and adequate capacity to meet financial commitments in the long term. Increased susceptibility to long-term adverse economic conditions.
BB+ BB BB-	Increased credit risk. Relatively lower financial credibility. Adequate capacity to meet financial commitments under average or favourable economic conditions. High or medium level of debt recovery in the event of default.
B+ B B-	High credit risk. Capability of meeting financial commitments largely conditioned on favourable external conditions. Medium or low level of debt recovery in case of a default.
CCC CC C	Very high credit risk. Very low capability to meet financial commitments even under favourable economic conditions. Low or very low level of debt recovery in case of a default.
D	Extremely high credit risk. Complete lack of capability to meet financial commitments. Without additional external suport the level of debt recovery is very low or close to zero.

Full details on the rating scale applied by the EuroRating credit rating agency are published on the agency's website at: www.eurorating.com/en/ratings/rating-scale

Regulatory affairs

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Methodology

The presented credit rating for the issuer assigned to the company Zenith Energy Ltd is a general assessment of the creditworthiness of the rated entity and it concerns the credit risk of its non-preference, unsecured and unsubordinated financial liabilities.

This credit rating has been issued in accordance with the Regulation (EC) No. 1060/2009 on credit rating agencies.

The methodology used in this rating was "Rating methodology for corporations" published in June 2023 and is available at: https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology

The rating definitions and the rating scale used by EuroRating are published on the agency's website at: https://www.eurorating.com/en/ratings/rating-scale

Historical default rates of the EuroRating credit rating agency can be viewed in the rating performance report at: https://www.eurorating.com/en/ratings/statistics

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: https://www.eurorating.com/en/ratings/methodology/definition-of-default

Solicitation and key sources of information

The presented credit rating was solicited by the rated entity or a related third party. The rated entity and/or its agents has participated in the rating process by providing the agency documents, information and explanations concerning its economic and financial situation.

The main sources of information used in the rating process were: financial statements and forecasts of the rated company; the bond memorandum; and other data, information and explanations provided by the rated company and/or its agents, as well as obtained by EuroRating on its own. It should be noted, that although the rated entity has been operating for many years, due to the fact that it is planning to carry out large investments in the near future that will result in a significant change in the scale of operations, the assigned credit rating to a large extent was based on the forecasts for the future, which by their nature are uncertain.

With this rating report EuroRating has assigned a credit rating to Zenith Energy Ltd for the first time. The rating and the rating report were presented to the rated entity in advance. Due to the provision of new significant information by the rated entity (including changes in planned investment projects and the related change in financial forecasts), the rating was changed from the previous level 'B' to 'B+'.

Public status of the assigned credit rating

The presented credit rating for the company Zenith Energy Ltd is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published free of charge on the European Rating Platform (https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_radar) provided by ESMA, as well as on the EuroRating credit rating agency's website in the section "Credit ratings", in the appropriate tab on the rated security/entity.

Disclaimer

EuroRating considers the scope and quality of available information on the rated entity as sufficient to issue a reliable credit rating. EuroRating takes all necessary measures to ensure that obtained information used in the rating process is of proper quality and is derived from sources deemed by the agency as reliable. Nevertheless, EuroRating does not have a possibility to audit, verify or to confirm in each case the correctness and authenticity of obtained information used in the rating process and/or presented in this report. The forecasts presented in the rating report have been prepared by the rated entity or its agents (not by EuroRating).

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