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Zenith Energy Ltd.

January 2023

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CREDIT RATING OF A GROUP OF COMPANIES		Initial	Review	Review	Review
Date of Rating Committee:		14.08.2020	30.08.2021	16.09.2022	06.01.2023
Date of Publication:		25.08.2020	10.09.2021	19.09.2022	06.01.2023
ZENITH ENERGY LTD.	Long-term rating:	B-	B-	B	B+
	Outlook:	Stable	Positive	Positive	Stable

1) The credit rating and the rating outlook were disclosed to the rated entity or related third party. Following that disclosure amendments in the credit rating and rating outlook have not been executed;

2) During the last 2 years, BCRA has not provided ancillary services to the rated entity or a related third party.

BCRA – CREDIT RATING AGENCY AD (BCRA) *is the third fully recognized rating agency in the EU, registered pursuant to Regulation No. 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by the BCRA are valid throughout the EU and are fully equal to those, of the other agencies, recognized by the European Securities and Markets Authority, without any territorial or other limitations.*

On January 6, 2022, the **Rating Committee** of BCRA had a session, in which the Report on the credit rating review of Zenith Energy. was discussed. The session was headed by Dr. Kiril Grigorov - chairmen of the Rating Committee. The members of the Committee discussed numerous rating factors in accordance with the Rating Methodology and took the **following decision**:

*BCRA **upgrades** the Long-term credit rating of Zenith Energy Ltd. with one notch - from "B" to "**B+**" and changes the **outlook** related to it from Positive to **Stable**.*

The officially adopted methodology of BCRA for assigning credit rating of a group of companies and/or individual companies in the group is used: ***https://bcra.eu/files/holding_methodology_2016_en.pdf***

The users of the rating can find information on the meaning of each rating category, including the definition of default in the published Global rating scale on the BCRA's website: ***https://bcra.eu/files/global_scale_en.pdf***

Table 1: General information about the rated entity

Company name:	Zenith Energy Ltd.
Head Office:	Suite 4000, 421 – 7th Avenue SW, Calgary, Alberta, T2P 4K9, Canada
Registration №:	BC0803216
LEI:	213800AYTYOYD61S4569

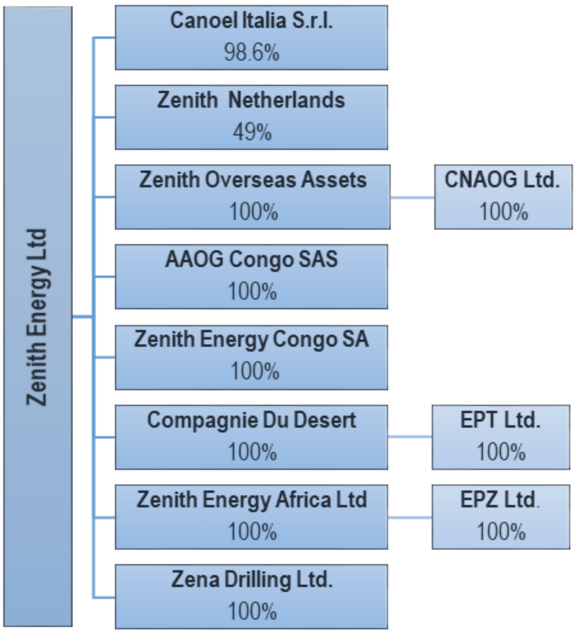
Company Overview

History and Structure

Zenith Energy Ltd was incorporated and registered in British Columbia, Canada in September 2007 as a corporation with the name Canoel International Energy Ltd. According to a shareholders' resolution dated 30 September 2014, the company's name was changed to Zenith Energy Ltd.

Zenith Energy Ltd. is the holding company of the group which is engaged in oil production in Africa as well as natural gas and electricity production in Italy. Accordingly, the company's operations are carried out through its main operating subsidiaries, as presented in the organizational chart below.

Figure 1: Holding structure of Zenith Energy Ltd.



- **Canoel Italia S.r.l.** ("Canoel") was established as an Italian subsidiary in 2011. The company operates or has working interests in a number of energy production assets in Italy. By August 2013, the company started to produce natural gas and natural gas condensate, and after the purchase of a "gas to power" plant in 2015, it initiated the production of electricity from its Torrente Cigno concession. Zenith Energy owns 98.64% of Canoel.

- **Zenith Overseas Assets Holding Ltd.** ("Zenith Overseas") acquired a 100% interest in the share capital of Canadian North Africa Oil & Gas Ltd. ("CNAOG") from China National Petroleum Corporation ("CNPCI"). As a result of the agreement, Zenith Overseas holds through CNAOG a 22.5% interest in the Sidi El Kilani Concession in Tunisia.

- **Anglo African Oil & Gas Congo S.A.S. ("AAOG Congo SAS")** is a fully owned subsidiary of Zenith Energy since its acquisition in the spring of 2020. The company held a 56% majority interest in the now-expired Tilapia oilfield in the Republic of the Congo. AAOG Congo shall collect the outstanding amount of receivables owned by Société Nationale des Pétroles du Congo and afterward it will be liquidated since Zenith Congo has been established as a new operating entity for any further business activities to be conducted in the Republic of the Congo.

- **Zenith Energy Congo SA** ("Zenith Congo") is a fully owned subsidiary of Zenith, established in August 2020 in the Republic of the Congo with the purpose to receive a new 25-year license to operate the Tilapia oilfield. In February 2021, the company has completed the inquiry of public utility. With the finalization and ratification of a production contract, the company will be granted a drilling license by the Congolese Ministry of Hydrocarbons. Zenith Congo is expected to hold a 60% interest in the new license once issued, with the remaining 40% held by Société Nationale des Pétroles du Congo.

- **Zenith Energy Africa Ltd.** ("Zenith Africa") was incorporated in March 2021 as a fully owned subsidiary to enter into a share purchase agreement with Candax Energy Ltd. for the acquisition of a 100% interest in Candax's fully owned subsidiary - Ecumed Petroleum Zarzis Ltd. (EPZ) which has a 45% interest in the Ezzaouia Concession in Tunisia.

- **Compagnie Du Desert Ltd.** is a fully owned subsidiary that entered into a share purchase agreement for the acquisition of a 100% interest in Candax's fully owned subsidiary - Ecumed Petroleum Tunisia Ltd (EPT). The acquisition was completed in March 2021. EPT holds a 100% interest in the El Bibane and Robbana concessions in Tunisia.

- **Zena Drilling Ltd.** was incorporated in the United Arab Emirates in July 2017. Zena is a fully-owned subsidiary providing international oilfield services.

- **Zenith Energy Netherlands B.V** ("Zenith Netherlands") **–** The group has concluded a share purchase agreement with Hingbo

Industries Company Ltd., incorporated in Hong Kong, for the sale of a 51% interest in its fully owned subsidiary - Zenith Netherlands. At the beginning of 2023, it was announced that Zenith Netherlands has entered into a share purchase agreement with OMV Exploration and Production GmbH to acquire 100% of the outstanding share capital of OMV (Yemen Block S-2) Exploration GmbH, OMV Jardan Block 3 Upstream GmbH and OMV Block 70 Upstream GmbH.

OMV Yemen is one of the largest oil producers in the country with a highly prospective portfolio including a balance of immediate production, as well as a balance of short and long-term growth opportunities. Significant associated gas volumes have been recorded with oil production across OMV Yemen's portfolio giving evidence of substantial natural gas production potential as well.

Also, in September 2022, Zenith presented an offer for the award of an initial nine-year license to operate **Block-1** containing the Sèmè oilfield, offshore **Benin**. Block-1 is a proven oilfield, with significant unexploited potential. The oilfield has produced a reported 22 million barrels of oil to date, with last production having taken place in 1998. If the offer is accepted, Zenith will progress in completing a rigorous due diligence process and begin negotiations with the local hydrocarbon ministry.

Ownership and Management

Zenith Energy Ltd is a public holding company, double listed on the London Stock Exchange Main Market (LSE: ZEN) and the Euronext Growth of the Oslo Stock Exchange (OSE: ZENA).

Table 2: Share capital of Zenith Energy: 3.2018 – 9.2022

	№ of Shares	CAD'000
9.2022	1 872 574 449	60 121
3.2022	1 872 574 449	60 121
3.2021	1 163 889 331	48 017
3.2020	577 072 921	40 400
3.2019	260 427 064	28 866
3.2018	158 798 698	22 792

As of end-September 2022, the issued share capital of Zenith Energy comprises 1 872 574 449 common shares of no par value with one voting right per share. No new shrares were issued during the reviewed period.

The CEO of the company - Andrea Cattaneo is the largest individual shareholder, being beneficially interested in a total of 102 468 240 common shares, representing 5.47% of the total issued and outstanding common share capital of the company.

The company has a solid management team as each senior executive has more than 25 years of experience and expertise within the oil & gas industry. Mr. Andrea Cattaneo is serving as President and CEO of the company since 2009.

Zenith's strategic focus is on pursuing transformational opportunities in the Middle East, Africa, and Europe through the development of proven revenue-generating oil, gas, and electricity production assets, as well as low-risk exploration activities in assets with existing production.

Operating Activities

Canoel Italia S.r.l.

Canoel Italia is specialised in gas and electricity production in Italy. The group owns 98.64% of Canoel Italia as it has granted a minority 1.36% stake to the Director managing the subsidiary Company's assets are comprised of six operated and three non-operated onshore gas production concessions in Italy.

In October 2015, Canoel acquired cogeneration equipment and infrastructure. The acquisition has enabled the company to produce electricity using Torrente Cigno's sub-standard natural gas production from the Masseria Vincelli 1 well and sell it directly into the national grid. Recently, the electricity produced by Torrente Cigno is registering record profitability.

During the six months ended September 30, 2022, the company sold 5,623 mcf of natural gas (2021 - 4,742 mcf) and 5,309 MWh of electricity (2021 - 2,792 MWh) produced from its Italian assets

The surging prices of gas and electricity are boosting the profitability of Italian operations, encouraging the group to expand them further. Currently, it is finalising plans to reactivate 3 natural gas production concessions within its Italian portfolio.

Operations in the Republic of the Congo

In April 2020, the group finalised the acquisition of a 100% interest in AAOG Congo, the former Congolese subsidiary of Anglo African Oil & Gas plc, This was the group's first acquisition in Africa as part of its new development strategy. AAOG Congo held a 56% working interest and operated the Tilapia Licence I, which expired in July 2020.

Through its new wholly-owned subsidiary - Zenith Congo, the group has applied for a new 25-year licence for the Tilapia oilfield (to be called Tilapia II), for which it was the successful bidder. The company is currently negotiating the terms of Tilapia II with the Ministry of Hydrocarbons of the Republic of the Congo. Until the license is finally granted, the group is not allowed to start production and currently has no revenues from this asset.

Zenith Congo is expected to hold a 60% interest in the new Congo Licence II once issued, with the remaining 40% held by SNPC the National Oil Company. AAOG Congo holds outstanding receivables from SNPC totaling USD 5.7 mln, which may cover future investment requirements.

The Tilapia oilfield is located in the Lower Congo Basin, just 1.8 kilometres off the coast of the Republic of the Congo, covering an area of 50.51 km². The oilfield is drilled through deviated wells from onshore which results in a significant cost saving compared to offshore drilling but with production and storage facilities being land-based onshore.

The target formations will be the potentially transformational, unexplored Djeno formation, as well as the regionally proven Mengo formation. Zenith aims to finalise the drilling and increase the production of the well to reach its targets of 500-1000 barrels per day. Taking into account the data accumulated so far, it is theoretically achievable. However, there are a series of technical risk factors concerning the amount of understanding of the geology of the project areas, the reservoirs being targeted, and the distribution and magnitude of the indicators that have been identified in exploration work.

Operations in Tunisia

Zenith has entered into two separate transactions in relation to an onshore oil production asset in Tunisia, through which it has, in parts conditionally, acquired a cumulative 45% working interest in the Sidi El Kilani concession. During the spring of 2021, the group expanded its activities in Tunisia by acquiring a 100% working interest in the Robbana and the El Bibane concessions as well as a 45% working interest in the Ezzaouia concession.

Sidi El Kilani concession

In April 2020, Zenith Netherlands signed a conditional SPA with KUFPEC Ltd. for the acquisition of a 25% working interest in the Sidi El Kilani concession However, the completion of this transaction remains conditional on the approval being granted by the Comité Consultatif des Hydrocarbures of the Republic of Tunisia. The parties are currently in discussion regarding restructuring the nature of the transaction, but it cannot be guaranteed that this will be successfully completed.

In September 2020, Zenith Netherlands signed an agreement with CNPCI to acquire its working interest of 22.5% in the Sidi El Kilani concession. This agreement was fully replaced by another agreement between Zenith Overseas and CNPCI. According to it, Zenith Overseas acquired a 100% interest in the share capital of CNAOG, which holds a 22.5% working interest in the Sidi El Kilani concession. Together with the ownership over CNAOG, Zenith also took over crude oil produced from the concession and allocated to and received by CNAOG in the amount of approximately 30 000 barrels.

Sidi El Kilani is reported to be the second-largest oil field discovered in Tunisia since 1989. The area covers 204 square kilometres, located onshore in the Pelagian Basin, eastern Tunisia. The field is operated by CTKCP (Compagnie Tuniso– Koweito Chinoise de Petrole) with the following participating partners: State of Tunisia National Oil Company, ETAP (55%), KUFPEC (22.5%) and Zenith (22.5%). Current production output, solely at natural flow, is approximately 550 bopd.

Ezzaouia concession

In March 2021, Zenith acquired a 45% working interest in the Ezzaouia concession through the 100% purchase of Ecumed Petroleum Zarzis (EPZ) from Candax Energy Ltd. The concession is comprised of 9 884 acres of land and is located at the Zarzis peninsula, south of the island of Djerba in the southern and is operated by MARETAP, a joint operating company owned in partnership with the national oil company of Tunisia called ETAP. ETAP holds the remaining 55% interest in Ezzaouia.

MARETAP operates an oil storage terminal, connected to Ezzaouia by way of two pipelines (one for gas and one for oil respectively), at the port of Zarzis, with a storage capacity of approximately 200 000 oil barrels, from which production is exported to the international markets.

Current gross production is approximately 500 bopd. Development obligations during the course of the new 20-year concession include drillings of a side-track, replacement well and development well. Planned field production optimisation and workover activities are expected to increase the gross production rate to 1 000 bopd, potentially resulting in 450 bopd production net to Zenith Energy.

Robbana and El Bibane concessions

In May 2021, Zenith completed another acquisition in Tunisia. Through its fully owned subsidiary Compagnie Du Desert Ltd, Zenith acquired a 100% interest in the fully owned subsidiary of Candax called Ecumed Petroleum Tunisia Ltd. As a result, the group now holds a 100% working interest in El Bibane and Robbana concessions.

Robbana concession is located onshore on the island of Djerba in the southern Gulf of Gabes and covers 48 square kilometres. Two wells have been drilled in Robbana since the discovery - ROB-1 and ROB-2. Zenith has successfully completed the workover of ROB-1, which is currently producing at a rate of approximately 30 bopd with the installation of a new Weatherford sucker pump. The production rate is expected to increase to 40-50 bopd once the well is given additional time to stabilise.

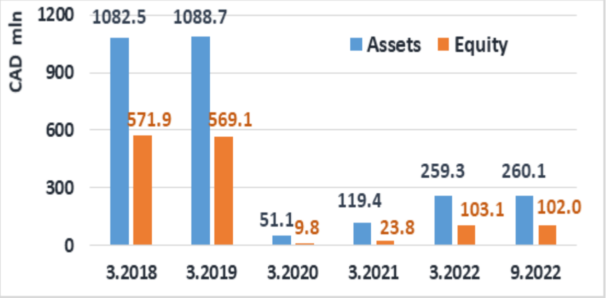
Following an in-depth geological and reservoir review enhanced by new information obtained during the workover of ROB-1, Zenith has selected the location for the drilling of ROB-3 - a new well that will reach a total target depth of approximately 2 500 metres. The objective for Robbana is to reach a total daily production rate of approximately 200-250 bopd.

El Bibane concession is located 16 kilometres offshore from the port of Zarzis in the Gulf of Gabes and covers an area of approximately 228 square kilometres in approximately 7 to 8 metres of water depth. A total of three wells are active, of which EBB-5 is the only one currently producing at a rate of 80 to 100 STB/d with 5.5 to 6 MMScf/d of natural gas, which is being processed for the recovery of 77 to 84 barrels of condensate per day (14 barrels/MMScf). The processed natural gas is re-injected into the formation via well EBB-4.

A well intervention is being studied in EBB-3, to restore production for the El Bibane at a rate of a total of 500 bbl/d. Well intervention requires an investment of approximately USD 3.5 mln. In case of a successful intervention in EBB-3, the company expects to increase total production from 100 to 500 bbl/d from El Bibane.

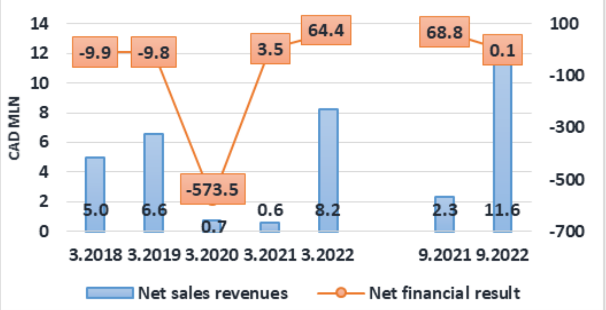
Financial Analysis of Consolidated FS

Figure 2: Assets and Equity of Zenith Energy Ltd.



The exit from Azerbaijan has led to significant changes in the financial condition of the rated company, namely – a large drop in assets amount and equity. As the accumulated retained earnings were formed because of the business combination for the acquisition of the assets in Azerbaijan, the equity of the group rapidly decreased from CAD 569.1 mln to CAD 9.8 after the disinvestment. Concurrently, to finance its development strategy in West Africa, Zenith Energy issued share capital on several occasions during the last two financial years, raising a combined net total of CAD 10.4 mln in FYE March 2021 and CAD 15.6 mln in FYE March 2020. Driven as well by the accumulated profit in the last financial year, the equity expanded to CAD 103.1 mln as of 31.03.2022, from CAD 23.8 mln a year ago.

Figure 3: Net sales revenues and Net financial result



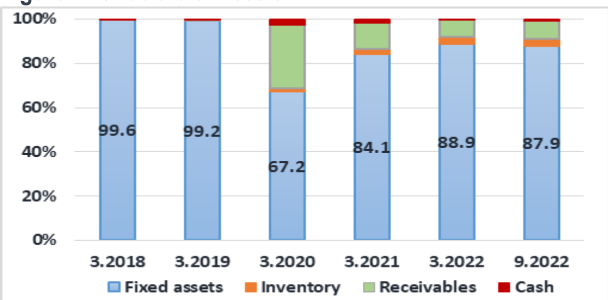
Reflecting the changes in the assets portfolio, the operating profit and net financial results of Zenith Energy have been largely dependent on booked income on business combinations. Reflecting the loss on discontinued operations in Azerbaijan, the group recorded an after-tax loss of CAD 573.5 mln for the FYE March 2020, followed by positive financial results formed by a booked gain on the subsequent Tunisian acquisitions.

Net sales revenues from oil and natural gas in FYE March 2022 reached a record-high total amount of CAD 8.2 mln, determined by the expansion of production in Italy and Tunisia as well as by the rapid surge in global energy prices. Also, CAD 75.9 mln revenues were booked as a gain on business combinations related to the new Tunisian assets, thus, forming a positive net financial result of CAD 64.4 mln.

Unaudited interim FS for the six months between April and September 2022 show a new record revenue generation with net sales revenues reaching CAD 11.6 mln. Accordingly, the accumulated amount is about 5 times higher than in the corresponding prior-year period and 140% higher than net sales revenues for the whole FYE March 2022. The sustained high energy pricing climate will support revenue generation in the second half of the financial year as well.

Following the large drop after the exit from Azerbaijan, assets have reversed an upward trend in line with the subsequent African acquisitions, increasing from CAD 51.1 mln in March 2020 to CAD 259.3 mln in March 2022 (CAD 260.1 as of September 2022).

Figure 4: Structure of Assets

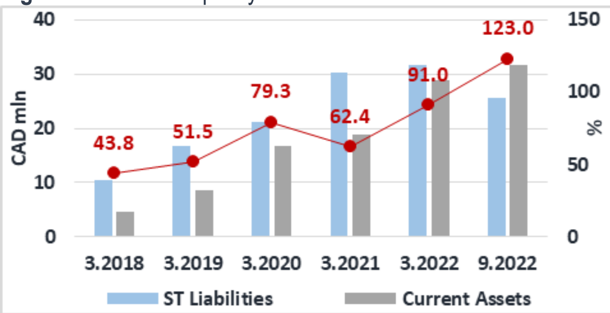


The structure of assets has been strongly dominated by the fixed assets (oil and gas properties) with fair value derived as the net present value of the estimated future cash flows arising from the constant use of the assets. This assets group has accounted for more than 99% of total assets but their relative share fell to 67.2% in FYE March 2020 before partly restoring to 87.9% as of 30.09.2022. The changes in assets structure resulted mainly from the accumulation of receivables from new business operations. As mentioned above, the group acquired a large amount of receivables due from SNPC, totaling USD 5.7 mln. The management of Zenith Energy expects to obtain full repayment of this amount in due course and therefore no impairment has been recognized.

In line with the higher sales, total receivables increased by 15.3% against the end of the last financial year, reaching CAD 22.1 mln as of September 2022, in which trade receivables amounted to CAD 13.5 mln.

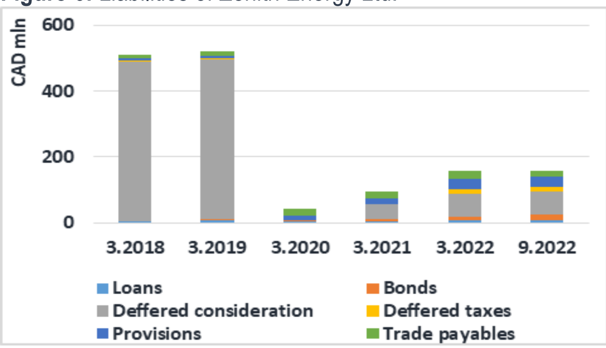
Inventory accounted for about 3% of total assets in the last years. As of 30.09.2022 inventory consisted of CAD 6 mln in relation to 127 759 barrels of crude oil that have been produced but not yet sold and CAD 2 mln of materials.

Figure 5: Current Liquidity



In line with the expansion of current assets, their coverage of short-term liabilities improved as the latter recorded a decrease of 18.8% (reaching CAD 25.7 mln), thus, forming a more favourable liquidity ratio of 123%, compared to 91% as of March 2022.

Figure 6: Liabilities of Zenith Energy Ltd.



On the liabilities side, the withdrawal from Azerbaijan led to a write-back of a large amount of deferred consideration payable, thus, rapidly reducing the sum of total liabilities. Naturally, the portfolio rebalancing during the last years reversed this trend mainly due to the accumulation of new long-term deferrals related to the acquisitions in Tunisia. However, total leverage ratio significantly improved - from 0.8 in 3.2020-3.2021 to 0.6 due to the largely outpacing growth in the sum of assets compared to liabilities.

In the first half of the current FY, total liabilities expanded by CAD 7.8 mln to CAD 132.4 mln as of 30.09.2022. The increase reflected the issue of bonds in the amount of CAD 8.1 mln. To finance its acquisition and development strategy, Zenith Energy is issuing two different sets of bonds under the EUR 25 mln EMTN Programme, denominated in four different currencies (EUR, GBP, USD and CHF) with maturity due in January 2024 and May 2026. As of September 2022, total bond liabilities stood at CAD 18.1 mln, accounting for 11.4% of total liabilities. Concurrently, loan obligations decreased by CAD 0.9 against March 2022, falling to CAD 7 mln.

Given the larger increase in equity, the financial debt-to-equity ratio annually improved from 0.54 to 0.18 as of end-March 2022, before slightly increasing to 0.25 as of end-September 2022. The changes in key financial indicators in the last five financial years are presented in the Appendix.

Forecast

BCRA has prepared a **conservative forecast** for the cash flows in the period 3.2023-3.2025 based on the strategy and business plans provided by the company's management and independent expert opinion on yield opportunities in West Africa. Planned revenues from Tunisian oil production have been adopted, based on increasing average daily yields. Accordingly, current oil production of about 500 bopd is set to gradually increase to 750 bopd by the end of the forecasted period. The possibility to achieve these yields by drilling and workover is confirmed by the independent expertise assigned by BCRA.

It should be noted that drilling at Tilapia oilfield in Congo is not planned to commence and does not impact revenues in the forecasted period. Effects from the new potential acquisitions in Yemen and Benin **are not included in the forecast** as well.

Results show that Zenith Energy won't be able to generate sufficient operating cash flow to service its medium-term liabilities without placing shares or accumulating new debt liabilities (probably through bond subscriptions on EMTN). Considering that the acquired oil fields in Tunisia are in operational exploitation, no significant investments are planned, and operating costs remain constant, we evaluate the production prognosis accuracy risk as moderate to low. In case of a prolonged increasing cycle of oil prices, while maintaining the projected production targets, profitability may rise significantly, or higher prices may compensate for revenue shortfalls in case of unachieved production targets. On the other hand, a sharp price decline could prevent Zenith from maintaining cash flows at a level sufficient to meet its targets and fund planned CAPEX. However, we expect downward oil price pressure to remain relatively subdued during the forecasted period.

GENERAL CONCLUSIONS

The **rating upgrade** reflects the large increase in sales revenues and the expansion of assets portfolio through the recent acquisition of OMV Yemen, and the potential acquisition in Benin.

The **stable outlook** reflects the progress that the group has achieved in building a well-balanced portfolio of assets with untapped reserves and existing production, as well as the expectations for a sustained high energy prices climate, supporting the growth of revenues.

The following factors could lead to a **positive change in outlook** and/or **rating upgrade**:
1) successful development of activities in Congo and Yemen;
2) higher profitability of business operations;
3) debt reduction.

The following factors could lead to a **negative change in outlook** and/or a **rating downgrade**:
1) material increase in leverage;
2) unreached sales revenue targets, resulting in consistent operating losses;
3) lack of market funding for business development and debt refinancing.

Table 3: Key Financial indicators of Zenith Energy: 3.2018 – 9.2022

CAD mln	**9.2022***	**9.2021***	**3.2022**	**3.2021**	**3.2020**	**3.2019**	**3.2018**
Total Assets	260.1	210.8	259.3	119.4	51.1	1 088.7	1 082.5
Fixed Assets	228.5	196.3	230.5	100.5	34.3	1 080.1	1 077.9
Current Assets	31.6	14.5	28.8	18.9	16.8	8.6	4.6
Equity	102.0	97.3	103.1	23.8	9.8	569.1	571.9
Financial Debt	25.1	14.7	18.3	12.7	8.8	12.2	5.6
Net Sales Revenues	11.6	2.3	8.2	0.6	0.7	6.6	5.0
Total Revenues	115.7	787.9	841.5	370.9	208.5	65.7	50.2
Operating Result	1.7	-6.4	-8.7	-18.0	-9.5	-8.6	-9.1
Net Financial Result	0.1	68.8	64.4	3.5	-573.5	-9.8	-9.9
EBITDA	2.2	70.0	68.9	5.4	-571.7	-7.0	-7.3
ratios							
EBITDA Margin	0.19	0.89	0.82	0.15	-27.43	-1.07	-1.45
Total Leverage	0.61	0.54	0.60	0.80	0.81	0.48	0.47
Financial Debt-to-Equity	0.25	0.15	0.18	0.54	0.90	0.02	0.01
Current Liquidity	1.23	0.46	0.91	0.62	0.79	0.51	0.44
Cash Liquidity	0.06	0.09	0.04	0.05	0.06	0.18	0.24

* Data based on unaudited interim FS

For the elaboration of the report and assignment of the rating, information from the rated entity, the World Bank, the BCRA database, consultants and other sources of public information have been used.