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**ZENITH ENERGY Ltd**  
 (Holding Company)

September 2021

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CREDIT RATING OF A GROUP OF COMPANIES		Initial	Review
Date of Rating Committee:		14.08.2020	30.08.2021
Date of Publication:		25.08.2020	10.09.2021
ZENITH ENERGY Ltd	Long-term rating:	<b>B-</b>	<b>B-</b>
	Outlook:	<b>stable</b>	<b>positive</b>

1) Prior to the present publication the credit rating and rating outlook was disclosed to the rated entity or related third party. Following that disclosure amendments in the credit rating and rating outlook have not been made:

2) During the last 2 years, BCRA Credit Rating Agency AD 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 Authorities, without any territorial or other limitations.

On August 30, 2021, the **Rating Committee** of BCRA had a session, in which the Report on the credit rating review of Zenith Energy Ltd was discussed. The session was headed by Dr. Kiril Grigorov - chairman of the Rating Committee. The members of the Committee discussed numerous quantitative and qualitative credit rating factors and took the **following decision**:

BCRA **affirms** the Long-term credit rating **B-** assigned to **Zenith Energy Ltd** and **changes** the related **outlook** from stable to **positive**.

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://www.bcra-bg.com/files/Holding\\_Methodology\\_2016\\_en.pdf](https://www.bcra-bg.com/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://www.bcra-bg.com/files/global\\_scale\\_en.pdf](https://www.bcra-bg.com/files/global_scale_en.pdf))

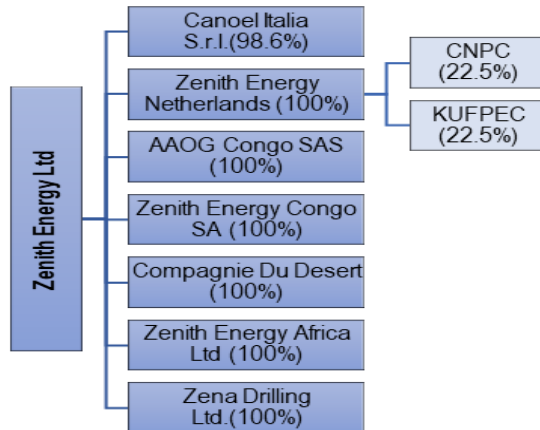
### History and Structure of ZENITH ENERGY Ltd

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

Zenith Energy, as a parent company of the group, is a holding company with operations carried out through its operating subsidiaries. The main group's activity is international oil and gas production, development and exploration. Currently, Zenith has a portfolio of oil and gas assets in Italy, Congo and Tunisia.

In the year ended March 31, 2021, several material changes took place with regards to the group's development strategy and geographic concentration - the exit from operations in Azerbaijan and a new focus on assets in North and West Africa. As a result, three new fully owned subsidiaries were incorporated in the group over the past year. The organization chart of the group is presented below, which includes the main subsidiaries relevant for its operations.

**Figure 1:** Holding Structure of Zenith Energy Ltd.



Canoel Italia S.r.l. was established as an Italian subsidiary in 2011. The company operates or has working interests in, a number of energy production assets producing natural gas, condensate and electricity in Italy. In 2015, Zenith purchased a "gas to power" plant and started producing electricity from its Torrente Cigno concession.

Zenith Energy Netherlands Ltd. was incorporated in Amsterdam in April 2020. Through this wholly-owned subsidiary, Zenith holds, subject to final regulatory approval, a 45% working interest in the North Kairouan permit and Sidi El Kilani (SLK) concession, covering an area of circa 204 square kilometres, located onshore in the Pelagian Basin in Eastern Tunisia, which is operated by Tuniso-Koweito-Chinoise de Pétrole (CTKCP). The Company's assets in Tunisia were acquired during 2020 but the acquisition remains subject to a favourable opinion being granted by the Comité Consultatif des Hydrocarbures of the Republic of Tunisia.

Anglo African Oil & Gas Congo S.A.U. - a fully owned subsidiary since its acquisition in spring 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 receivables owned by Société Nationale des Pétroles du Congo (the national oil company of the Republic of the Congo) and afterwards it will be liquidated since Zenith Congo has been established as a new operating entity for future operations in the Republic of the Congo.

Zenith Energy Congo SA - a fully owned subsidiary of Zenith, established on 13 August 2020 under the laws of the Republic of the Congo. The purpose of Zenith Congo is to receive a new 25-year license (Production Sharing Contract) to operate the Tilapia oilfield. In February 2021, the company announced that it had completed the inquiry of public utility successfully. It is expected that once the PSC is finalised and has undergone parliamentary ratification, Zenith Congo will hold a 60% working interest in the new license once, with the remaining 40% being held by Société Nationale des Pétroles du Congo.

Zenith Energy Africa Ltd. is a newly incorporated fully owned subsidiary, which has entered into a share purchase agreement with Candax Energy Limited for the acquisition of a 100% interest in Candax's fully owned subsidiary in Barbados - Ecumed Petroleum Zarzis Ltd which holds a 45% interest in the Ezzaouia Concession in Tunisia. In March 2021, the acquisition was completed.

Compagnie Du Desert Ltd. – a recently incorporated fully owned subsidiary, which has entered into a share purchase agreement with Candax for the acquisition of a 100% interest in Candax's fully owned subsidiary in Barbados - Ecumed Petroleum Tunisia Ltd which holds a 100% interest in the El Bibane and Robbana concessions in Tunisia.

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

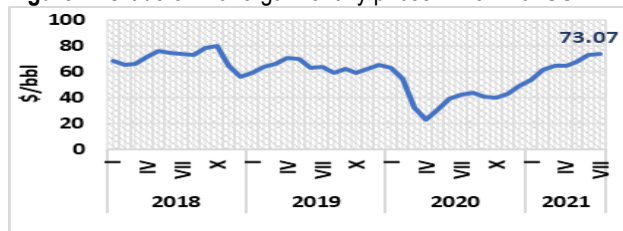
Till the end of the fiscal year 31-3-2020, Zenith Aran has been the main company in the holding. According to the management, the decision to exit Azerbaijan after several years and more than USD 5 million invested came due to the challenging geology of the oilfield, the unreliability of historical field data, and poor wells conditions. The handover of all production infrastructure and employees in Azerbaijan was completed in June 2020. Zenith announced its complete exit from Azerbaijan, specifically in respect of exploration activities, on 10 November 2020 and received the final payment for past oil production in December 2020.

The Company is seeking to acquire further oil and gas assets in West Africa to complement its existing assets in Italy, Congo and Tunisia.

### Operating Environment

Oil and natural gas are internationally traded commodities, subject to significant price variations over time. A prolonged period of low oil, gas or petroleum product, or electricity prices may affect Zenith's ability to maintain its long-term investment program, which is based on certain assumptions concerning price developments.

**Figure 2:** Crude oil – average monthly prices in nominal USD



Source: The World Bank

Global oil prices surged more than 45% in the first six months of 2021, rallying toward \$80 a barrel for the first time in more than two and a half years. The market is tightening with OECD industry stocks now well below historical averages. Economic recovery, rising vaccination rates, and easing social distancing measures underpin stronger global oil demand. According to the International Energy Agency (IEA), global oil demand is expected to preserve a robust growth, however, escalating Covid cases remain a key downside risk to the forecast.

The US Energy Information Administration (EIA) expects oil prices to remain near current levels for the remainder of 2021, averaging USD 70-72/b from August through November. In 2022, continuing growth in production from OPEC+ and accelerating growth in U.S. tight oil production is expected which will outpace decelerating growth in global oil consumption and contribute to prices declining to an average of USD 65/b in 2022.

Zenith Energy is currently involved in oil production in the Republic of Congo and Tunisia, and natural gas and electricity production in Italy. Therefore any legal,

regulatory or other change of the framework conditions in one of those national industries may have a substantial negative effect on the financial situation of the whole group. In particular, Zenith's operations in Africa are subject to greater risks than operations in more developed markets, due to higher political instability, lower security standards and less developed legal systems.

**General conclusions:** The decline in oil prices caused by the COVID-19 pandemic has proven supportive of the group's acquisition campaign in Africa. Specifically, the group has been able to obtain favourable commercial terms in the acquisitions of oil fields in Tunisia and the Republic of the Congo – both countries being well-established hydrocarbon provinces.

### Ownership and Management

Zenith Energy Ltd is a smallholding public company, listed on the London Stock Exchange Main Market under the ticker symbol, "ZEN", and with its entire common share capital admitted to trading on the Euronext Growth Oslo of the Oslo Stock Exchange under the ticker "ZENA".

Currently, the company's issued share capital comprises 1,407,711,650 common shares of no par value with one voting right per common share. No common shares are held in treasury. The CEO - Andrea Cattaneo is the largest individual shareholder, being directly interested in 4.51% of the total common share capital.

The company has a solid management team where each senior executive has more than 25 years of experience and expertise within the oil & gas industry. Mr. Andrea Cattaneo has been a director of the company since December 9, 2008 and has served as President and CEO of the Company since 2009.

The Group is pursuing an ambitious acquisition campaign in Africa by maximizing the use of its financial resources to enrich its portfolio and become a mid-tier E&P company. The development strategy may be defined by the following key points:

- Acquiring and revitalisation of marginal fields in mature petroleum provinces with untapped reserves and existing production;

- Maximising revenue by implementing low-cost oil production models;
- Ownership of key operational equipment to reduce costs, third-party delays, and decrease reliance on third-party oilfield service companies.

The company is evaluating new acquisitions in West Africa, which are expected to be announced.

### **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, one operated and one non-operated exploration permit, and two exploration permit applications All of the currently producing gas wells are located onshore in three concessions of Italy: Torrente Cigno, Misano Adriatico and San Mauro.

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.

The company's revenues have remained relatively stable, however, in FY 2021 they were negatively impacted by the COVID-19 spread and the fall in electricity and gas prices. The company maintains an adequate level of liquidity. Despite the growth of liabilities, interest costs have witnessed a descending trend. Revenues from sales of products were insufficient to achieve positive operating results and their amount in the last years was highly dependent on services invoiced to the parent company.

### **Operations in 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, for a modest consideration of USD 280 000. This was the Company's first acquisition in Africa as part of its new development strategy. AAOG Congo held 56%

working interest and operated the Tilapia Licence I, which expired in July 2020.

Through its new wholly-owned subsidiary - Zenith Congo, the group applied for a new 25-year licence for the Tilapia oilfield (to be called Tilapia II), for which it was the successful bidder. The award process for Tilapia II has involved an "Inquiry of Public Utility" s, which was successfully completed by Zenith Energy in February 2021. The Company is currently negotiating the terms of Tilapia I with the Ministry of Hydrocarbons of the Republic of the Congo. The timing of the final granting of the licence remains uncertain and remains subject to successful negotiations with the Congolese Ministry of Hydrocarbons regarding Tilapia II.

Zenith Congo is expected to hold a 60% interest in the new Congo Licence II once issued, with the remaining 40% held by Société Nationale des Pétroles du Congo (SNPC), the National Oil Company. In addition, AAOG Congo holds outstanding receivables from SNPC totaling \$5.7m,

Tilapia oil field 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 km<sup>2</sup>. The Tilapia oilfield is drilled through deviated wells from onshore which results in a significant cost saving compared to offshore drilling but with the production and storage facilities land-based onshore. Lying in a prolific oil-producing region, it is estimated to contain P90 reserves of 7.6 million barrels in the existing R1/R2 horizons.

Based on the information provided by the company and through studies of the geology of the region and the field, it can be concluded that a number of problems accompany the production from the field. The characteristics of the reservoir, the way of oil and dissolved gas, the type of oil, the exploitation modes, etc., show constantly deteriorating productions. Newly drilled wells, in the initial stage of exploitation, produce significant amounts of oil 3,000-4,500 barrels per day. This production is achieved by further stimulating the reservoir, by acid treatment and/or fracking. Subsequently, the production is rapidly reduced due to the deterioration of the bottomhole characteristics and the production of the gas dissolved in the oil. These indicators are also evident

from the latest presented production data of approximately 30 barrels per day.

The target formations will be the potentially transformational, unexplored Djeno formation, as well as the regionally proven Mengo formation. Zenith believes that the field has a maximum production potential of 5000 per day. Whether Zenith will be able to achieve this target remains to be seen.

Requirements for investment in Tilapia will be covered by the amounts owed by AAGOC. Zenith aims to finalise the drilling and increase the production of the well to reach its conservative 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. If the increase in production is not achieved, BCRA considers that Zenith may face significant difficulties in meeting the projected targets.

### **Operations in Tunisia**

In 2020, Zenith has involved in the Sidi El Kilani concession, and over the last 12 months, the company's portfolio of interests in Tunisia has expanded through the acquisition of the Ezzaouia, El Bibane and Robbana concessions.

- ***North Kairouan permit and SLK***

Zenith Energy Netherlands BV holds a cumulative conditional interest of 45% in the North Kairouan permit and the Sidi El Kilani Concession. This resulted from the 2 transactions: 1) a conditional acquisition from KUFPEC, a subsidiary of the State of Kuwait's national oil company, of its 22.5% working interest for a consideration of USD 500 000 in April 2020 and 2) a conditional acquisition from CNPC International, a subsidiary of China National Petroleum Corporation of its 22.5% working interest for a consideration of USD 300 000 in September 2020. Tunisia's national oil company ETAP owns the remaining 55% of the concession.

The completion of this acquisition remains conditional on the approval of the Comité Consultatif des Hydrocarbures of the Republic of Tunisia. Extension of longstop date for the completion are already agreed with both sellers. Before the approval, the share of the production that accrues to Zenith Netherlands is in oil held storage in Tunisia. 5 wells are currently producing with a production rate of approx. 550 barrels per day.

- ***Ezzaouia concession***

In March 2021, Zenith has acquired an interest of 45% in the Ezzaouia concession by the 100% purchase of Ecumed Petroleum Zarzis from Toronto-based Candax Energy Ltd. Under the terms of the SPA, ZEAL has agreed to acquire 100% of the issued share capital of EPZ for the aggregate amount of USD 150 000, paid at completion, as well an additional USD 100 000 to be satisfied by the issue of ordinary shares in the share capital of Zenith. Also, Zenith will pay royalties of \$0.35/barrel for 10 years.

ETAP owns the balancing 55% in the concession, which is operated by MARETAP, a joint operating company owned in partnership with ETAP on a 50:50 basis.

Ezzaouia has modern oil treatment and storage facilities with a total field storage capacity of about 20000 oil barrels. It produced at a rate of approximately 551 bopd during March 2021. Development obligations during the course of the new 20-year concession are expected to include the drilling of a side-track, the drilling of a replacement well and development well. Planned field production optimisation and workover activities are expected to increase Ezzaouia gross production to 1 000 bopd, potentially resulting in a production of 450 bopd net to Zenith.

- ***Robbana and El Bibane concessions***

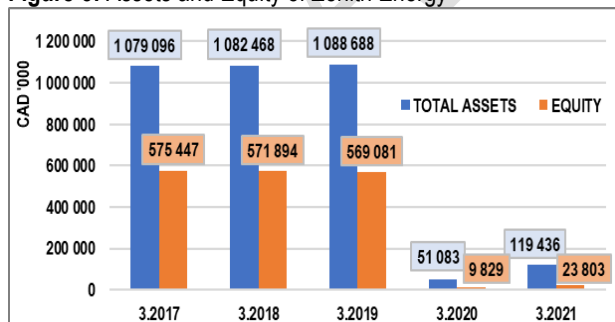
In April 2021, the group announced the acquisition of 100% working interest in the El Bibane and Robbana concessions from a subsidiary of Candax Energy Ltd. for a nominal consideration of USD 100 as well as USD 200 000 in the form of assumption of debt payable by the close of May 2021.

The Robbana concession covers 48 square kilometres located onshore in the island of Djerba in the southern Gulf of Gabes. The ROB-1 well encountered two hydrocarbon-bearing reservoirs in the Cretaceous Upper Meloussi Sandstone formation. Only two wells have been drilled in Robbana since the discovery, ROB-1 which is still in production and ROB-2 which is temporarily abandoned. Robbana currently produces 25 barrels of oil per day from ROB-1, having previously produced approximately 50 barrels. The group is currently performing the workover of ROB-1, with the objective of increasing production to approximately 50-80 barrels of oil per day.

The El Bibane concession is located 16 km offshore from the port of Zarzis in the Gulf of Gabes, covering an area of approximately 228 square km and in approximately 7-8 meters water depth. The reservoir is located in the cretaceous Zebbag fractured dolomite formation at approximately 2 150 meters below the surface. A total of 6 wells plus 4 sidetracks have been drilled within El Bibane but only three wells remain active, namely - EBB-5, EBB-4 and EBB-3RE2. EBB-3 suffered string damage and has been temporarily shut-in, having previously produced at a rate of between approximately 500-600 barrels of oil per day (35 API) before production being suspended. Well intervention to restore production requires capital cost of approximately USD 3.5 million. In case of a successful well intervention in EBB-3, the company expects to increase production from 100 to 500 barrels of per day from El Bibane.

### Zenith Energy Ltd

Figure 3: Assets and Equity of Zenith Energy

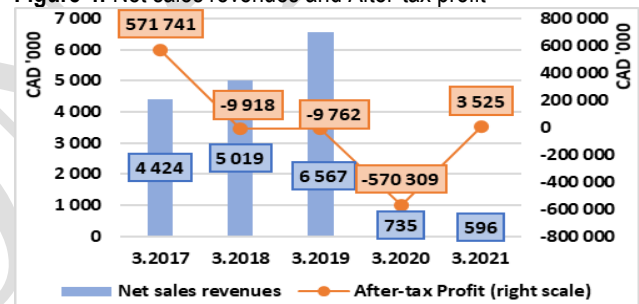


The exit from Azerbaijan (divested during FY 2020) led to significant changes in the financial condition of

the rated company. Since March 31, 2020, the results for Azerbaijan are included as “Discontinued Operations” in the group’s consolidated financial statements.

As the accumulated retained earnings in FY 2017 were formed because of the business combination for the acquisition of the assets in Azerbaijan, the shareholders' equity of the group decreased from CAD 569 081 thou to CAD 9 829 thou as of end-March 2020 after the disinvestment. To finance its reconfigured development strategy in Africa, Zenith issued equity on several occasions during FY 2021, raising a net total of CAD 7 617 thou (+ CAD 6 734 thou in FY 2020). As a result, the shareholders' equity increased by 142.2% YoY to CAD 23 803 thou as of end-March 2021.

Figure 4: Net sales revenues and After-tax profit

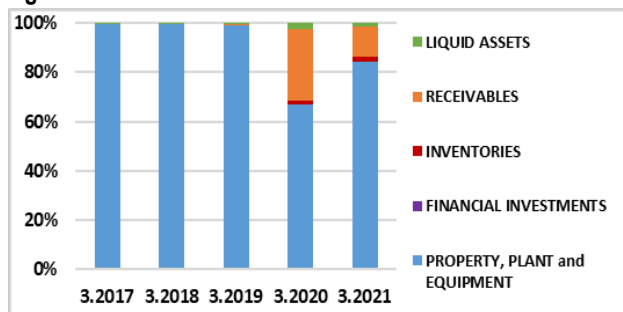


Zenith Aran has played a dominant role in sales revenue in 2017-2020, also supported by relatively steady revenues generated by Canoe Italia. However, the growth in product sales proved insufficient to achieve positive financial results. Reflecting the loss on discontinued operations in Azerbaijan (amounting to CAD 580 633 thou), the group recorded an after-tax loss of CAD 570 309 thous for the year ended March 31, 2020.

During FY 2021, the generated revenues from oil and natural gas sales decreased by 18.9% YoY to CAD 596 thou, however, the group managed to record an after-tax profit of CAD 490 thou. This result was brought about by the gain on business acquisition related to the Tunisian assets (+ CAD 36 491 thou), which was sufficient to offset the impairment of the assets in Congo, the loss on assets retranslation, and the non-recurrent administrative expenses related to the negotiation for the acquisitions.

With the exit from Azerbaijan, the group's assets rapidly decreased from CAD 1 088 688 thou as of 3.2019 to CAD 51 083 thou as of 3.2020. Reflecting the Tunisian acquisition during FY 2021, total assets expanded by 133.8% YoY, reaching CAD 119 436 thou.

**Figure 5: Structure of Zenith's assets**



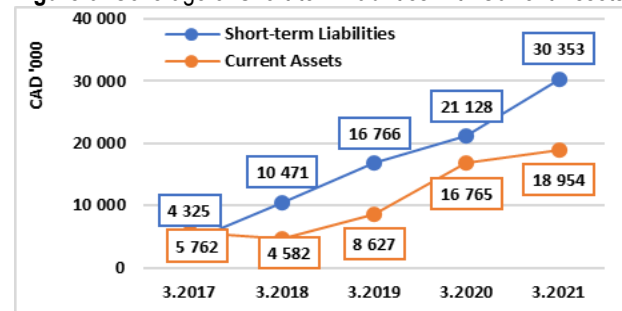
Accordingly, the structure of assets has changed somehow. In 3.2017-3.2019, it was strongly dominated by the *Property, plant and equipment* which accounted for more than 99% of total assets but their relative share fell to 67.2% in 3.2020 before increasing to 84.1% as of 3.2021. As there is no available market for the group's oil and gas properties, their fair value is derived as the net present value of the estimated future cash flows arising from the constant use of the assets, incorporating assumptions that a typical market participant would take into account. It should be noted that this creates a risk for the accurate assets valuation.

Also, as a result of the new business operations, the group acquired receivables, which increased from CAD 5 413 thou in FY 2019 to CAD 14 654 thou in FY 2021 accounting for 12.3% of total group's assets as of 3.2021. As mentioned above, the group acquired a large amount of receivables due from SNPC, equivalent to approximately CAD 8 mln. Liquid assets slightly increased to CAD 1 631 thou, (up from CAD 1 220 thou in FY 2020), while inventory stood at CAD 2 669 thou consisting of CAD 1 057 thou of crude oil that has been produced but not yet sold and CAD 1 604 materials in Tunisia.

Despite the growth of current assets, their coverage of short-term liabilities slightly deteriorated as the

latter recorded an outpacing increase – from CAD 21 128 thou to CAD 30 353 thou as of end-March 2021

**Figure 6: Coverage of Short-term liabilities with Current Assets**



On the liabilities side, the withdrawal from Azerbaijan led to a write-back of a large amount deferred consideration payable, thus, total liabilities fell from CAD 519 607 thou to CAD 41 254 thou as of end-March 2020. In the last financial year ended in March 2021, total liabilities recorded an increase of CAD 54 379 thou (+131.8% YoY), mainly on the account of long-term contingent liabilities related to the acquisitions in Tunisia.

Except for FY 2020, the structure of the group's liabilities has been dominated by deferred consideration payable. However, their relative share declined to 44.2% as of end-March 2021, compared to 93.1% in March 2019. This partly reflected the increase in trade accounts payable, which now holds the second-largest share – 22%. After a decrease of 37.9% in FY 2020, total loans expanded by 18.1% YoY, accounting for 5.5% of total group's liabilities. Zenith also reported an increase in financing through issued non-convertible bonds. As of end-March 2021, the company sold notes for a total of CAD 7 073 thou compared to CAD 3 979 thou a year ago.

To funds the acquisition of assets, and their development, as well as to avoid an excessive dilution of its share capital, the company has issued 2 different sets of Euro Medium-Term Notes (EMTN) listed on the third Vienna Stock Exchange with coupon rates of 8.00% to 10.375% - relatively high for medium-term maturities of 2 and 4 years.

The following table presents the changes in key financial indicators of Zenith Energy Ltd over the last five years.

**Table 1: Zenith Energy – key financial indicators**

CAD '000	3.2021	3.2020	3.2019	3.2018	3.2017
Balance Sum	119436	51083	1088688	1082468	1079096
Fixed Assets	100482	34318	1080061	1077886	1073334
Current Assets	18954	16765	8627	4582	5762
Equity	23803	9829	569081	571894	575447
Net Sales Revenues	596	735	6567	5019	4424
Total Net Revenues	37087	20846	6567	5019	583846
Operating Result	-18046	-9466	-8573	-9129	-4063
After-Tax Result	3525	-570309	-9762	-9918	571741
EBITDA	4318	-569459	-7478	-7697	573673
<b>ratios</b>					
EBITDA Margin	0.12	-27.32	-1.14	-1.53	0.98
Leverage ratio (Liabilities /Assets)	0.80	0.81	0.48	0.47	0.47
Credit Liabilities / Equity	0.54	0.90	0.02	0.01	0.01
Current Liquidity	0.62	0.79	0.51	0.44	1.33
Instant liquidity	0.05	0.06	0.18	0.24	0.91

### Financial Forecast

BCRA has prepared a moderately conservative forecast for the cash flows in the next two financial years based on 1) the strategy and business plans provided by the company's management and 2) an independent expert opinion on yield opportunities in West Africa. Planned sales revenue of Tunisian oil production have been adopted, based on increasing average daily yields. According to the company, the production is 312 barrels per day of oil, while plans are to increase production volumes reaching a maximum production value of 22 000 barrels per month (714 per day) until the beginning of 2023. The possibility to achieve these yields by drilling and workover is confirmed by independent expertise assigned by BCRA, however, some geological risks are present. It should be noted that drilling at Tilapia in Congo does not commence and does not impact revenues until the end of the forecasted period. Results show that Zenith Energy won't be able to generate sufficient operating cash flow to service their medium-term liabilities without placing shares or debt accumulation (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 higher oil prices, while maintaining the projected production targets, profitability may rise significantly as the company has calculated risk at maximum levels predicting lowering oil price to USD 40 USD per barrel. Also, higher oil prices may compensate for revenue shortfalls in case of unachieved production targets.

**General conclusions:** Zenith Energy Ltd can be considered as a smallholding structure of companies, which has undergone a significant change in its business strategy - terminating unsuccessful business in Azerbaijan and transferring its oil and gas production activities to West Africa. The **positive rating outlook** reflects the progress the group has achieved during FY 2021 in building a well-balanced portfolio of production and development assets in Africa. The company has ambitious plans. If the goals set are achieved, it will be able to recoup the investments made in the acquisition of its new assets in a relatively short time.

The following factors could lead to a rating upgrade:

- 1) successful development of activities in Congo;
- 2) improvement in liquidity position;
- 3) continued increase in production leading to positive operating results and better profitability;
- 4) debt reduction.

The following factors could lead to outlook change or a rating downgrade:

- 1) material increase in leverage and indebtedness;
- 2) unreached sales revenue targets, resulting in consistent operating losses;
- 3) lack of market funding for business development and debt refinancing.

BCRA will closely **monitor** the rating factors and interim financial results which will present the outcome from the new acquisitions. Based on them BCRA could perform an earlier rating review.

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

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