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RAEX-Europe upgraded the credit rating of Zenith Energy Ltd. from 'B-' (Moderately low level of creditworthiness) to 'B' (Moderately low level of creditworthiness) according to the international scale. The rating outlook changed from developing to stable which means that in the mid-term perspective there is high probability of maintaining the rating score.

JUSTIFICATION OF THE RATING:

The Agency has upgraded the **credit rating of Zenith Energy Ltd to 'B' and changed the outlook from developing to stable**. The upgrade is mainly supported by the complete change in strategy which has already yielded adequate levels of production in Tunisia and the outlook appears to be favorable for future oil extraction in the same country through different subsidiaries and concessions. In addition, corporate governance and risk management practices remain adequate for the size and operations of the company. However, the rating remains constrained by still low geographic diversification of production, as current operations are concentrated in Tunisia and Italy, moderately weak country and industry risk, still negative operating cash flows, as well as negative above the line profitability, limited market position, restrained liquidity levels and the latent risk of not accessing external funding to continue operations and develop new assets. In addition, we remain conservative in our forecast as the planned exploitation of the current and pending concessions through drilling and workovers carry high geological, operational and technical risks, which may hamper the company's production targets.

Our internal evaluation of the **Country and Industry Risk (CIR)** was revised to reflect the exit from Azerbaijan and the new ventures in Tunisia. The Republic of Congo is still not included, as the license of Tilapia II has not been officially granted, thus, there are no operations currently in the country. The CIR score reflects a moderately high level of systemic risk. This is a result from a combination of a moderate level of risk from the Oil and Gas industry, a moderately high country risk for Tunisia and a moderately low country risk for Italy. According to current operations and forecasts provided by Zenith, we determined the country exposure based on revenue at 88% in Tunisia and 12% in Italy.

The **industry risk score** for the Oil and Gas industry reflects a moderate level of risk. We consider the oil and gas industry to be sensitive in terms of cyclicality as it has a very inelastic demand with respect to price. For this reason, revenues in the Oil and Gas industry tend to follow the economic cycle but with a much lower volatility. Oil and Gas prices (and therefore companies' revenues) are more sensitive to supply. Moreover, the prices in this industry tend to be very volatile and cannot be controlled by the company. On the other hand, we consider this sector to have high barriers to entry. The most notable barriers are the significant capital cost and long lead times to get a facility up and running. The constraints posed by governments permitting of new concessions and of major upgrades to existing fields are significant. In some countries, the permitting process is considered so cumbersome that construction of new greenfield facilities is highly unlikely. Meaningful changes in an existing facility could take up to a year or longer to execute and require significant capital. Another factor that could inhibit new entrants is government regulations concerning refinery emissions and environmental remediation of spills. Thus, we assess this Industry to have a moderate level of risk.

On the other hand, the **country risk score** for Tunisia is considered to show a moderately high level risk. The country has a weak fiscal position, especially since the government has not agreed on a new program with the IMF, which could create problems to finance the budget. What is worse, the government still cannot agree on reforms and fiscal consolidation measures, which complicate further the possibility of reaching an agreement with the IMF. In addition, according to the Worldwide Governance Indicators, Tunisia was ranked 118th in the Government Effectiveness Index and 88th in the Rule of Law Index out of 214 analyzed countries in 2020.

Zenith Energy's **strategy** underwent a significant change in 2020 when the company exited its activities in Azerbaijan following underwhelming results, due in large part to inaccurate technical and geological data, to focus on more attractive opportunities in other geographies. As of November 2020 the company terminated its 25-year REDPSA (Rehabilitation, Exploration, Development and Production Sharing Agreement) with SOCAR and, by the end of 2020, all its operations in Azerbaijan. The current strategy of the company is aimed at acquiring and developing proven onshore oil and gas fields in which production has dipped but where there is still potential to achieve considerable production rates after investing in reparation of existing wells and/or drilling of new wells. The strategy also includes taking advantage of existing opportunities in an opportunistic and proactive manner. The company mainly concentrates on targeting fields previously operated by oil majors and state oil companies. We consider that the company has continued to pursue the execution of this strategy with a shift in focus towards Africa and Italy in terms of energy and electricity production.

In Italy, the Group owns various working interests in several onshore exploration and production properties and two gas concessions. This minor operation of electricity generation using low-grade natural gas, has been generating substantial revenue as a result of the recent energy crisis in Europe which has caused gas and electricity prices to skyrocket. The Italian portfolio includes 13 production and exploration properties of which Torrente Cigno is the most significant and it has one operating well, Masseria Vincelli 1. Proved and probable reserves in the property stand at 17154 mmcfe (2859 mboe) when including planned offset horizontal well, Masseria Vincelli 2. The company is producing from Masseria Vincelli 1 well with very good pressure and gas production. According to Zenith's information, the reserves at the well are higher than expected. Therefore, the potential drilling of the Masseria Vincelli 2 sidetrack, as recently announced, will be postponed until all the reserves of the current well are produced. According to the current situation, the production is expected to continue for the next three years.

In the **Republic of Congo**, the company acquired AAOGC for GBP 200 000 in May 2020 while AAOGC still held the Tilapia I license. Unfortunately, Zenith was only able to get marginal production out of it and the license expired in July 2020. After this, the company established a new subsidiary named Zenith Energy Congo SA in order to participate on the bid process for the 25-year Tilapia II license, as required by the Ministry of Hydrocarbons of the Republic of the Congo (MHRP). After submitting the bid, the company announced on December 2020 that it had been selected as the successful bidder by the MHRP. However, 10 months into the successful Tilapia II license bid, the company has not received an official ratification in regard to a new production sharing contract to start operations in the field. Moreover, Zenith cannot confirm a specific timeline for this to happen. Thus, we have not included the Republic of Congo operations in our assumptions, forecasts and neither in our systematic risk assessments and geographic diversification evaluations. We will revise the Congo plans and operations once there is more clarity on the official assignment of the Tilapia II license. Moreover, Zenith still holds a receivable of USD 5,7 m owned by Société Nationale des Pétroles du Congo (SNPC), the National Oil Company from Tunisia, for which there is no timeline for repayment at this time. In regards to the Tilapia oil field, as per the Competent Person's Report (CPR) prepared by Chapman Petroleum

Engineering Ltd., it is estimated to currently have 6M barrels of oil reserves. The field is located 1,8 km offshore, however, all the drilling is performed onshore. When production started in 2007, it produced around 940 bopd but the last figures showed a production of around 30 bopd back in 2020. Despite this, Zenith believes that there are several reservoirs within the license which might be productive if adequately exploited, especially the Mengo and Djeno reservoirs. According to Zenith, once the license is in place and the USD 5,7 m payment received, target plans include finalizing the drilling of the Tilapia field in order to obtain a prospective production in excess of 1000 bopd. As mentioned before, this has not been included in our assumptions for the prepared forecast as we do not believe these plans are very close to materialization.

In 2020, Zenith decided to go back to **Tunisia** once again. Having previously in 2008, when Zenith was named Canoel International Energy Ltd., entered into a farmout and participation agreement for the acquisition of oil and gas interests in the Tunisian blocks of Jorf, Bazma, and Sud Tozeur from Cygam Energy Inc. The company subsequently divested from these assets in 2011.

Zenith Energy restarted its journey in Tunisia by signing a conditional sale and purchase agreement, through its subsidiary Zenith Energy Netherlands B.V., to acquire a 22,5% working interest in the **North Kairouan** permit and the **Sidi El Kilani** (SLK) Concession from KUFPEC (Tunisia) Limited back in April 2020. The consideration payable by Zenith for this acquisition was USD 500000 of which the company settled only USD 250000 in June 2020. The completion of the acquisition remains conditional on approval being granted by the Comité Consultatif des Hydrocarbures of the Republic of Tunisia. In addition, the company signed a conditional sale and purchase agreement to acquire a 22,5% working interest in the North Kairouan permit and the SLK Concession from CNPC International (Tunisia) Ltd. in September 2020 for a consideration payable of USD 300000. Similar to the KUFPEC acquisition, the deal remains conditional on approval by the Comité Consultatif des Hydrocarbures of the Republic of Tunisia. Both pending acquisitions will give Zenith a total of 45% working interest in the SLK concession. Due to the delay on approval by the governmental entity, Zenith had to extend both sale and purchase agreements. So far, there is no potential outlook for the approval of the acquisitions; however, according to the company, the oil which has been produced since the signing of the sale and purchase agreements belong to Zenith. As of October 2021, the total amount of oil held in storage in line with the EC is approximately 120000 barrels of oil. Similar to the situation in the Republic of Congo, the agency is not using these figures under the predefined assumptions as there is no clear pathway for the completion of the acquisitions. We will revise these deals once there is more clarity.

Zenith continued to expand its presence in Tunisia by acquiring Ecumed Petroleum Zarzis Ltd from Candax Energy Ltd in March 2021. Ecumed Petroleum Zarzis Ltd holds a 45% interest in the **Ezzaouia concession**. The amount paid by Zenith amounted to USD 150000 and a royalty of USD 0,35, to be not less than USD 50000 per year, for each barrel produced from Ezzaouia for a period of 10 years. Ezzaouia, which is located in the Zarzis peninsula, is operated by MARETAP and currently produces at a rate of approximately 465 bopd, of which 210 bopd is net to Zenith.

According to the latest CPR, reserves in the Ezzaouia Concession in Tunisia are 242 MSTB developed producing and 2593 MSTB probable reserves. Moreover, the net present value of future net revenue calculated by Chapman Petroleum Engineering Ltd. using forecast prices and costs amounts to a total of USD 64,1 m, of which only USD 0,817 m is attributed to developed producing reserves. Also, the calculated investment to develop the whole property is estimated to be around USD 26 m according to the CPR. The large amount of probable reserves reflects the potential uncertainty in the recovery of oil and, thus, the amount of work and investment needed for the company in order to materialize these reserves into production. The company has stated that workover activities in the short/mid-term will increase the production to 1000 bopd, which would be 450 bopd net to Zenith. These field rehabilitation operations will be managed by MARETEAP, the operator of the Ezzaouia concession. The expected work programme will consist of a sidetrack to be carried out on a non-producing well, as well as three additional workovers to increase production to the mentioned level of 1000 bopd. However, the company has not announced any exact timeline regarding these operations as of today. Moreover, Zenith is still waiting on the parliamentary approval of the new 20-year concession, which has been delayed due to recent events in Tunisia.

In May 2021, Zenith completed yet another acquisition in Tunisia. Through Compagnie Du Desert Ltd., one of Zenith's many subsidiaries, the company acquired a 100% interest in Ecumed Petroleum Tunisia Ltd. As a result, the company now holds a 100% interest in the El Bibane and Robbana concessions. The terms of the acquisition included a nominal consideration of USD 100 and an additional consideration of approximately USD 200000 in the form of assumption of debt payable by the end of May 2021.

El Bibane concession is located 16 km offshore from the port of Zarzis. Current wells are three: EBB-5, EBB-4 and EBB-3RE2 of which EBB-5 is the only one currently producing at a rate of 80 bopd. On the other hand, EBB-3 production has been suspended as it suffered string damage and the necessary investment to put it into work is around USD 3,5 m according to Zenith. Currently, there is no timetable or financial funding planned for the implementation of the necessary works to put well EBB-3 back into operation. Zenith is currently still in the evaluation stage and has not yet announced its operational plans for these wells. In view of the high production potential and in consideration of the current very favorable oil price climate, the company will seek to perform a well intervention in the near-term.

According to the CPR from March 2021, reserves are 34 MSTB of oil developed producing and 5866 MMscf of marketable gas and 145 Mbbls of condensate. In addition, the net present value of future net revenue calculated by Chapman Petroleum Engineering Ltd. using forecast prices and costs amounts to a total of USD 27,3 m, of which USD 6,9 m is attributed to developed producing reserves. Also, the calculated investment to develop the whole property is estimated at about USD 8 m. The El Bibane concession expires in December 2033.

The **Robbana concession** is located onshore in the island of Djerba. The concession has ROB-1 and ROB-2 wells, of which ROB-1 is actively producing 20 bopd, while ROB-2 is currently abandoned. According to the CPR from March 2021, there are 723 MSTB probable reserves. Furthermore, the net present value of future net revenue calculated by Chapman Petroleum Engineering Ltd. using forecast prices and costs amounts to a total of USD 9,6 m of provable undeveloped producing reserves. Also, the calculated investment to exploit the whole property is around USD 12 m. The Robbana concession expires in November 2034.

The company announced in June 2021 that it is finalizing plans to start the drilling of the ROB-3 well. Zenith also mentioned it expects operations to take around 60 days with an estimated investment of around USD 1,5 m; the expected production once the drilling is finalized will be around 100-150 bopd. Nonetheless, the company has not provided any update on the timetable or financial funding plan for the operations. In regards to ROB-1, Zenith recently announced a successful workover operation expected to yield a production of 100 bopd. The cost of the intervention is estimated to have been around USD 550000 and contracted a 750hp drilling and workover rig. According to the latest information provided by Zenith, the workover operations were successfully completed and flow rates are expected to be at around 100 bopd. The company has also stated that the ZEN-260 drilling rig, which was used in Azerbaijan, is currently at a port on the Black Sea and is scheduled to be moved to Tunisia in the next months. The main use of the rig will be for drilling operations in the Robbana concession, as well as the Ezzaouia concession.

In **Nigeria**, Zenith has entered into an exclusivity agreement for the potential purchase of an equity stake in Noble Hill-Network Limited, the sole holder of the Risk Service Contract (RSC) for NW OML 141. The company believes the RSC for NW OML 141 presents a very attractive opportunity to access a potentially highly prospective oil production asset, specifically the Elepa

South and Barracuda oilfields, following drilling activities. Zenith is currently performing due diligence activities and has not entered into any binding undertaking at this time. The company confirmed that no terms for any possible transaction have been discussed or contemplated at this time.

Despite a difficult year for the company in 2020, we consider the **growth prospects** of the company to be encouraging, but with substantial challenges ahead. In FY 2021 (March 2021), revenues decreased by 19% as the company presented a turnover of CAD 596000 mostly related to the oil production sold form April 2020 to the end of July 2020, when the concession expired in the Republic Congo.

Based on our conservative scenario assumptions stated below, we project Zenith's oil revenues to be at around CAD 10 m and gas and energy revenues to be about CAD 2 m for a total of CAD 12 m in FY 2022 (March 2022). Moreover, we view the outlook for the development of prices of oil and gas as promising in the mid-term perspective as a result of a combination of OPEC cuts and bottlenecks in the U.S. infrastructure. Moreover, demand for hydrocarbons has increased substantially as the reopening of several economies worldwide has had better-than-expected results. While, at the same time, record natural gas prices in Europe have been caused by strong demand and also as a consequence on supply shortages from Russia and lack of wind in the North Sea. However, current and mid-term oil and gas prices, will most likely be higher than our conservative assumptions for the forecast, which will potentially drive revenues higher than expected.

In terms of **investments**, we recognize that Zenith Energy has an aggressive investment plan in the mid- to long-term horizon. In the short-term, we estimate that Zenith will need around USD 2 m to invest in Tunisia to go from a current production of 230 bopd to a total of 420 bopd. The investment plan includes drilling activities of ROB-3 as well as a workover program in ROB-1. We consider this plan to be coherent and feasible in terms of execution. However, in our projections we anticipate the company to fund these interventions via debt or equity issuance, as cash flows will still not be sufficient to support these investments. On the other hand, a successful collection of the company's large receivables could also contribute to fund the projects.

The **debt levels** of the company increased by 48,2% from CAD 8,8 m as of March 2020 up to CAD 13 m by August 2021 of which CAD 7,4 m was short-term debt. The hike is mainly attributed to the Multicurrency EMTN Programme of which an equivalent of around CAD 2,5 m has been allocated, as well as to an increase in loans, mainly the loan in Tunisia of CAD 1,788 m and the Winance loan of CAD 1,875 m. On the other hand, Zenith has also settled several loans along 2021 amounting to around CAD 1,5 m. We anticipate debt levels to increase as the company is planning to fund several projects in the mid-term perspective and, according to their strategy, it will try to avoid further investor dilution. Moreover, Zenith is planning to open a credit line from a local bank for around USD 4,9 m to pre-finance oil production in Tunisia. All debt currently on the company's balance sheet has fixed interest rates.

As of FY 2021 (March 2021) the level of debt was low in absolute terms, but high relative to the cash generating capacity of the company. Since EBITDA and FFO remain negative, levels of debt cannot be covered by operating cash flows, thus, approaching debt maturities will have to be covered by balance sheet cash, additional equity issuances or will need to be refinanced. Such is the case of the first EMTN programme (ISIN AT0000A23S79), which is due on 20 December 2021 for an amount of CAD 2,960 m. In this regard, Zenith has communicated the Agency that it is performing a swap campaign to exchange the current bond with new bonds and, in the meantime, it is moving funds to Baader Bank, the paying agent. Similarly, the Winance loan also has its maturity approaching on 31 January 2021, however, this is being paid in shares.

Zenith Energy has a diversified **supplier base**. Most part of the payables are related to local suppliers in Africa and Italy. The largest creditor in trade and other payables is Kerui

International, accounting for about 10% of total payables. Despite the well-diversified supplier base, the share of overdue trade payables is around 11%, without taking into consideration a payable amount of around CAD 1 m being currently disputed with one of Zena Drilling suppliers.

We assess **corporate governance practices** to be favorable within the company. Even though the company has not adopted a Governance Code, it has internal procedures in place keeping in check the activities of the directors, management and members of the board. In addition, the Group's Board of Directors has three committees: the Audit Committee, the Remuneration Committee and the Corporate Governance Committee; these committees ensure that the company complies with all key operational and managerial expectations. In addition, we consider that, based on the information provided by the company, the management team has vast experience and an extensive background in the sector which underpins the basis to successfully implement the proposed strategy. Zenith Energy's transparency remains acceptable with regards to publication of Financial Statements according to regulatory requirements, as well as other relevant corporate documentation and board activities. Moreover, the company issues press releases in order to inform the public of all significant activities. Furthermore, the risk management policy and process in the company are assessed positively as all systems are checked by the Audit Committee of the Board and, in our view, Zenith Energy has an effective policy which analyses and reports developments in regard to credit risk, liquidity risk, FX risk, commodity price risk and interest rate risk. Finally, risks that are insured are wealth and legal (Management and Directors), liability insurance, violence and political risks, property damages and operator extra expenses in Tunisia and Italy.

Diversification of production in terms of geography and type product, as well as source of revenues, of Zenith Energy is expected to improve but remains limited as of now. The company remains mainly concentrated on the production of oil as, despite the current high revenue in sales of electricity due to exorbitantly high prices, the main focus of the company remains oil production. Despite the slight diversification of different lines of production, this structure exposes Zenith to oil price volatility. What is more, we also anticipate diversification in terms of geography to improve going forward in case the announced acquisitions are completed.

Zenith Energy is exposed to a **moderately low currency risk**. There is a currency mismatch between revenues and costs. However, the Tunisian Dinar (TND) has remained quite stable and a probable depreciation is latent due to the current stance of FX reserves combined with high fiscal deficits. A potential depreciation will only further benefit Zenith as its revenues are in USD while local costs are paid in TND. Moreover, future operations in the Republic of Congo will not carry substantial FX risk as the Central African CFA franc (CFA) is pegged to the EUR. The CFA is backed by the French treasury who provides a guarantee of convertibility against the EUR, thus providing a tool to cushion potential shocks. The global presence of the Group results in moderate currency risk as the company engages in operations with GBP, TND, USD, CFA and EUR, while the reporting currency is CAD.

The **market position** of Zenith remains weak as it is a marginal player in the Italian energy market, it is just starting operations in Tunisia and has yet to kickoff operations elsewhere. The company's low market share makes it vulnerable to competition from other exploration and production companies which may have more operational and financial resources. This specifically could affect further expansion of the company in different geological basins (replacing and increasing reserves). However, the transition of large global oil and gas companies to environmental-friendly energy generation and the reduction of its fossil fuel assets, will probably favor Zenith in acquiring good quality assets at satisfactory value. Nonetheless, the competition of junior oil companies for such assets will challenge Zenith. The market position in Africa could solidify further once the imminent acquisitions are finally approved, pending concessions are renewed and the company starts successfully exploiting those fields.

As of FY 2021 (March 2021), the **liquidity stance** of the company is still considered as moderately negative, albeit having slightly improved from a year before. The current liquidity ratio stood at 0,62 while the absolute liquidity ratio was 0,05. This is mainly due to the increasing amount of trade payables related to activities in Congo and Tunisia. It is also important to mention that the inventory turnover is very low for the oil stock since Zenith takes between six to seven months to sell accumulated inventory in Tunisia. Currently, oil is held in stock and then sold via two liftings every year for an approximate amount of 70000 barrels each lifting. This could cause imbalances as oil prices fluctuate adding that there is no hedging strategy in place. However, this might change going forward depending on the company's productivity obtained from the fields as workovers and new well drillings are executed.

The weak liquidity position is especially underlined as, despite short-term debt being covered by current assets, the amount of trade payables is quite high, and inventory and receivables are not guaranteed to be converted before the maturity of the EMTN programme (ISIN AT0000A23S79) or when some of the short-term payables become due. What is more, under our established conservative assumptions, we are still projecting negative levels of operating cash flow as income from the current level of production will not be sufficient to outweigh production expenses and, mainly, administrative costs. Therefore, we expect the company to either raise more funds via share placement, new debt issuances or to refinance the EMTN programme (ISIN AT0000A23S79). If the level of cash flows does not recover as expected, the company might suffer from liquidity constraints as access to the market to seek funding is not guaranteed and a substantial amount of CAPEX and working capital is still necessary for Zenith Energy to continue developing reserves.

According to our conservative estimates, and assuming the EMTN programme is refinanced, the company will have to add around CAD 5 m in capital, either via equity, additional debt or cash from operations in order to avoid a liquidity crunch in the current fiscal year.

Zenith's bottom line **profitability** was positive in FY 2021 (March 2021); however, it was mainly due to non-cash one-off operations, such as gains on business combination as a result of the company's acquisitions. Profit from operations was actually negative as revenue was marginal mostly from oil sold in the Republic of Congo and a small amount of energy sold in Italy. While administrative expenses were relatively high as a result of non-recurrent expenses, such as bond issue and listing costs, expenses on negotiation for acquisitions, reversal of impairment and share based payments, represented 39% of overall administrative expenses. Nevertheless, even when netting for non-recurring expenses, the adjusting operating income was still negative. As of FY 2021 (March 2021), ROE stood at 21% (-116% when excluding revaluation items), the EBITDA margin at -2895% and the FFO margin was -2123%. According to our projections, these figures will improve but remain in the negative territory by FY 2022 (March 2022). We anticipate ROE net of revaluation effects to remain negative for next FY and to stand at -8,9%. On the other hand, we expect the EBITDA margin at -0,4% and the FFO margin at -12,1%. The main drivers of the negative profitability indicators are the still elevated levels of administrative expenses combined with lingering low levels of production. However, if workover operations are successful, oil prices remain high and the company manages to contain administrative expenses, we could potentially see positive margins in the mid-term perspective.

The stable outlook is supported by our view that the main rating drivers will remain unchanged in the mid-term perspective.

RATING ASSUMPTIONS:

- Average production of 310 bopd from September 2021 to March 2022;
- Average oil price of USD 52 per barrel;
- Average electricity production of 900 MWh;

- Average electricity price of USD 150 per MWh;
- The recently sold 68,000 barrels in Tunisia are taken into account;
- Oil production cost of USD 25-30 per barrel;
- Production only for Tunisia in Ezzaouia, Robbana and El Bibane.*

*** Republic of Congo projections and Tunisia acquisitions still subject to parliamentary approval are not considered in our forecasts**.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Consistently positive operating profit and operating cash flows in order to sustain growth and future investments;
- Improvement in receivables collection and inventory turnover days, which would ease liquidity and add financial flexibility;
- Increase diversification in terms of geography, for suppliers and customers, and business lines.

The following developments could lead to a downgrade:

- Increase in AR and inventory turnover days, which would cause liquidity constraints and default on payables;
- Deterioration of the market outlook in the oil and gas sector, mainly if prices are pressured downward. This would cause a rapid decline in revenues;
- Continued underachievement of production targets causing operating cash flows to remain negative increasing the pressure of seeking non-cash flow funding to finance operations.

ESG Disclosure:

Inherent factors

- Owners, Current decision-making practice, Efficiency of relations with subsidiaries and affiliates (S&A), Degree of information disclosure, Quality of strategic business planning, Risk management organization and Insurance coverage.

Drivers of change factors

- None.

COMPANY PROFILE:

Zenith Energy Ltd. is a company operating in the oil and gas sector registered in Canada, dual listed on the London Stock Exchange and Oslo Stock Exchange. The company's operations are located in Tunisia, where it produces crude oil, natural gas and condensate, and Italy, where it produces natural gas, electricity and condensate.

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RATING HISTORY:

Date	Review reason	Rating Score	Outlook
18.09.2020	Scheduled review	B-	Developing
27.05.2020	Unscheduled review	B-	Developing
30.04.2020	Unscheduled review	B+	On watch
18.11.2019	Initial assignment	B+	Stable

Minute's summary:

The rating committee for Zenith Energy Ltd. was held on 27 October 2021. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Corporate methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the rating class voting.

The rating was disclosed to the rated entity prior to the publication and was not changed during the process of coordination.

The following methodology was used for the rating assessment:

- Methodology for Assigning Corporate Credit Ratings – Full Version (from November 2018)
- Methodology for Assigning Country and Industry Score – Full Version (from November 2018)

Descriptions and definitions of all rating categories can be found under the Rating scale section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for Internal policies.

This rating is solicited. The rated entity participated in the rating assignment process.

No other third party participated in the preparation of the rating.

Main sources of information:

- Questionnaire from Zenith Energy based on the form provided by the Agency
- IFRS Quarterly reports for the past five years
- Audited IFRS Annual reports for the past five years
- Company's 2021 Investor Presentation
- Zenith Energy Anti-Corruption and Bribery Policy
- Zenith Energy Group Chart
- Answer for additional request based on the form provided by the Agency
- Other relevant documentation was also provided by the company
- Information from media and other public sources.

ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Sovereign entities. The disclosure document can be found on the Agency's website in the section: ESG factors in RAEX-Europe's Credit Ratings

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information as well as non-public information (obtained from the rated entity and/or other third parties) which was considered to be reliable, complete and non-biased. The responsible expert performed rating assessment of the company with information considered as the most reliable and up to date in accordance to the overall position of the company and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. The experts involved in the rating assessment and revision of the rated entity showed no conflict of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies from RAEX group.

Risk warning

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's press-release.

This press-release represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.