Rating-Agentur Expert RA assigned 'B+' credit rating to Zenith Energy Ltd. according to the international scale. The rating outlook is stable.

Rating-Agentur Expert RA assigned 'B+' (Moderately low level of creditworthiness) credit rating according to the international scale to Zenith Energy Ltd. The rating outlook is stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

*Updated version as of 18 February 2020

CORPORATE INDUSTRY RISK ASSESSMENT:

The company's operations (in terms of revenues) are concentrated in the following countries: 88% in Azerbaijan and 12% in Italy. The company is specialized on the following industries: Oil and Gas industry. The overall corporate industry risk for the rated company was assessed as adequate.

MAJOR FACTORS THAT INFLUENCED THE RATING:

Positive factors:

- The company has a clear strategy, which it has been adequately executing. In Italy, the Group owns various working interests related to gas and, in Azerbaijan, Zenith Energy entered into a Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) to extract oil from the largest onshore oil field in the country. Understanding and planning of the CAPEX needs and funding sources is consistent. However, in our opinion, in view of past results in workover and drilling operations in these fields, more conservative assumptions in terms of oil production could better reflect the mid-term perspective of the company. We consider a fundamental part of the strategy the fact that the company invests in its own drilling equipment and has its own drilling subsidiary (Zena Drilling) as it decreases dependency on third parties. Zenith Energy's 2P reserves amounted to 30,6 million barrels of oil in Azerbaijan and 16,2 BCF[1] of natural gas in Italy. However, given that only 11,8% of the 1P reserves (3,9 million barrels of oil) have been developed, along with the risk inherent on the oil exploration and extracting activities, forecast production costs, as well as levels of investments needed to extract the proposed level of hydrocarbons could become higher and projected levels of production could be delayed. Also, included in the company's strategy, is the acquisition of assets in other countries in the near future. Finally, the recent acquisition proposal of the Norwegian oil and gas company, Nordic Petroleum AS, besides contributing to a capital increase of around CAD 1,3 m, would set Zenith Energy in an ideal position to potentially acquire productive assets in Norway and could give the company the opportunity to increase the Norwegian investor base specialized in the hydrocarbon industry;
- Growth prospects for the company are encouraging. In FY 2019 (March 2019), revenues increased by 31% and, in our conservative scenario[2], we expect this metric to hike by around 85% as of the end of FY 2020 (March 2020). In respect to reserves, the overall level is substantial enough to generate consistent cash flows in the 25-year time span of the REDPSA agreement. In our opinion, the reserve life is adequate as we calculate the 1P life to be about 4,5 years while the 2P at around 14 years under the assumption of the company's forecast level of production. In our view, the outlook for the development of the global oil and gas industry is assessed as moderate in the mid-term perspective as

[1] Billions of standard cubic feet of gas.
[2] 70% of the company's projected production rate and a constant oil price of USD 60 per barrel.

uncertainties in regards to the global economy prevail. Still, we project positive operating cash flow for FY 2021 (March 2021) in our conservative scenario which also accounts for moderate oil prices (USD 60 per barrel);

- Substantial investments in fixed assets. Zenith Energy has an aggressive but coherent and feasible investment plan in the mid- to long-term horizon representing around 18% of total assets from FY 2019 (March 2019);
- Low level of financial debt. After having increased substantially in FY 2019 (March 2019), the level of debt recently decreased. We anticipate debt levels to increase as the company is planning a new debt issuance of around EUR 25 m; nonetheless, we expect it to remain at acceptable levels. Moreover, all debt currently on the company's balance sheet has fixed interest rates, which eliminates any type of interest rate risk;
- Satisfactory position in terms of concentration on suppliers. Most payables are related to local suppliers in Azerbaijan and Italy and payment terms granted by them are convenient for Zenith Energy. The largest creditor in trade and other payables is B Robotics W and accounts for about 7% of total payables;
- Low dependence of the company on one single creditor. The largest creditor in terms of financial debt accounted for only 0,3% of total liabilities and 34% of total debt as of September 2019. However, the largest liability for the company rests on the level of the consideration payable to SOCAR[3], which is 98% of total liabilities. Since this liability is tied to the level of production and capital costs, it does not represent a risk for Zenith Energy;
- Corporate governance practices are in accordance with industry standards. The company has internal procedures in place keeping in check the activities of the directors, management and members of the board;
- The company's transparency is outstanding. All the company's relevant information such as, financial and general information is clearly and transparently disclosed in its website;
- The risk management process in the company is assessed as positive. In our view, Zenith Energy has an effective policy which analyses and reports developments regarding all types of financial and operational risks.

Restricting factors:

- Our internal Country and Industry Risk (CIR) score reflected an adequate level of risk for the Oil and Gas industry in Azerbaijan. We consider the Oil and Gas industry to be sensitive in terms of cyclicality but with high barriers to entry. In respect to the country risk, Azerbaijan shows a moderately high level of risk as a result of subdued institutional development, still latent conflict risk over the Nagorno-Karabakh territory, as well as low monetary policy effectiveness alongside government intervention which directly affects the efficiency of the financial system. On the positive side, the country has a strong fiscal position, an outstanding climate for business and a competitive economy with a strong Oil and Gas sector;
- Moderate diversification of product types. The company is mainly concentrated on the production of oil as 89% of the revenues are attributed to this product. This exposes the company's cash flow to be volatile as a result of variation in oil prices;
- Revenues from oil sales in Azerbaijan are currently concentrated in the Marketing and Operations Department of SOCAR (SOCARMO). Despite this, we assess this risk to be mitigated since Zenith Energy could still effortlessly sell the product through other channels;
- The company is exposed to a moderate currency risk given the nature of its operations. There is a currency mismatch between revenues and costs. Even though the AZN is

[3] "Deferred consideration comprises capital commitments acquired as part of the Azerbaijan business combination transaction. These liabilities are measured at the net present value of contracted future cash flows"

currently *de facto* pegged to the USD, we expect the CBA to fully liberalize the exchange rate as soon as 2020. However, being and oil-based economy the AZN moves together with the price of oil which could create a natural hedge for the company given the fact that Zenith Energy cashes the Azeri oil selling invoices in USD and only the costs are paid in AZN. Regardless, the company's operation involving five different currencies exposes it to a moderate currency risk;

- Market position is weak, but has improved substantially. Zenith Energy has increased its value impressively over the last decade with a moderate use of capital. In addition, its low cost position, currently at 21 USD per barrel, increases the company's competitive position. Nonetheless, the company, as a junior, has a marginal share of the Azerbaijan oil market; however, the low share in the country is partly mitigated by its long-term agreement with SOCAR. Zenith Energy's general small size and market share makes the company vulnerable to competition from other exploration and production companies which have more resources. This specifically could affect further expansion of the company in different geological basins. Moreover, the amount of proved developed reserves was only 11,8% of the 1P reserves limiting the current cash flow generating capacity of the company; though, we expect this share to gradually increase in the mid-term horizon.

Negative factors:

- Low geographic diversification of production. The company's oil operations are concentrated exclusively in Azerbaijan and will remain so in the mid-term horizon. However, we expect this factor to improve as the company is planning to acquire additional assets in other locations;
- As of FY 2019 (March 2019), the liquidity stance of the company was inadequate. The current liquidity ratio stood at 0,51 while the absolute liquidity ratio was 0,18. This is mainly due to the increasing amount of trade payables, which has also caused working capital to be negative and volatile. Nevertheless, we expect these metrics to improve in our mid-term view as the company is set to issue debt with a value of about EUR 25 m which will be reflected in a substantial increase in the cash balance. Despite this, we do not anticipate cash flows from operations to turn positive until FY 2021 (March 2021). However, if the level of operating 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;
- Even though the current level of debt is not high, it is not covered by EBITDA and FFO as these have not been positive so far. As mentioned previously, we expect operating cash flows to turn positive by FY 2021 (March 2021);
- The net profit for Zenith Energy continues to be negative. This is a result of the high level of production and administrative expenses, even when accounting for non-recurring expenses related to listing costs and share based payments. As of FY 2019 (March 2019), ROE and the EBITDA margin stood at -1,6% and -95,8% respectively. According to our projections, these figures will turn to positive territory by FY 2021 (March 2021). In spite of this, both the Azerbaijan and Italy operations posted positive operating cash flows as of FY 1Q 2020 (June 2019);
- The company has no insurance coverage for its main assets.

Internal stress factors:

- The company risks incurring in a material breach of the Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) after the company did not comply with the following statement from the agreement: "achieve not later than the expiry of two (2) years from the date of SOCAR's approval of the Rehabilitation and Production Programme, being 3 October 2017, an average daily rate of Crude Oil production from the Contract Rehabilitation Area during ninety (90) consecutive days to be one point five (1,5) times the average daily rate of the 2015 Crude Oil Production". The latest reported production level stood at 225 bopd by the end of September 2019. The company has committed to reach the required level by the end of FY 1Q 2021 (June 2020). The Agency is also waiting for a letter from Zenith Energy where SOCAR confirms that it is in accordance with the new proposed deadline (very moderate stress-factor).

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- A continued increase in production as forecast alongside maintaining low levels of production costs which would translate in consistently positive operating cash flows;
- Substantial geographic diversification of production, which would reduce the company's exposure to systematic risk of one single economy combined with an improvement in the market and competitive position in the countries where the company operates;
- Improvement of the liquidity position of the company.

The following developments could lead to a downgrade:

- Continues underachievement if production targets which would lead to a violation of the REDSPA agreement in Azerbaijan;
- Continues underachievement if production targets causing operating cash flows to remain negative increasing the pressure of seeking non-cash flow funding to finance operations.

JUSTIFICATION OF THE RATING:

The Agency has assigned a credit rating of 'B+' to Zenith Energy Ltd. with a stable outlook. The rating is mainly supported by the company's solid and innovative strategy, encouraging growth prospects which will transform is positive cash flows, low level of financial liabilities, coherent investment and funding plan, as well as satisfactory corporate governance, transparency and risk management practices. However, the rating is constrained by low geographic diversification of production, moderate country and industry risk, negative operating cash flows as well as profitability, weak market position, constrained liquidity levels and the risk of incurring in a material breach of the REDPSA agreement.

First of all, our internal evaluation of the Country and Industry Risk (CIR) reflected an adequate level of risk for the Oil and Gas industry in Azerbaijan. This resulted from a combination of a moderate level on industry risk and a moderately high level of country risk in Azerbaijan, where the company receives most of its revenues. The industry risk score for the Oil and Gas industry reflects an adequate 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 wells and of major upgrades to existing wells 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 (air, water) and environmental remediation of spills. Thus, we assess this Industry to have an adequate level of risk. On the other hand, the country risk score for Azerbaijan (95% of Zenith Energy's revenues are generated in Azerbaijan and expected to climb going forward) is considered to show a moderately high level risk. On the positive side, the country has a strong fiscal position and a competitive economy with a strong Oil and Gas sector. In addition, it is ranked 34th in the World Bank's Doing Business Ranking where it scored 100% of points for the ease of getting credit and 96% for the ease of opening a business. However, there are factors which increase the systematic risk of the country.

The monetary policy effectiveness remains subdued as a result of high levels of dollarization and the tight grip of the government in the financial system, corruption remains high and the institutional development is moderate. According to the Worldwide Governance Indicators, Azerbaijan was ranked 111th in the Government Effectiveness Index and 142nd in the Rule of Law Index out of 214 analyzed countries in 2018. Moreover, a possible escalation of the frozen conflict over Nagorno-Karabakh territory continues to constrain the structural transformation of the country. Azerbaijan's economy is highly concentrated in the Oil and Gas industry and the banking system asset quality remains weak.

Zenith Energy's strategy focuses on 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 expedite manner. The company mainly concentrates on targeting fields previously operated by oil majors and state oil companies. In this regard, we consider that the company has a clear strategy in regard to the Italy and Azerbaijan operations, which it has been carrying out since a few years back. In Italy, the Group owns various working interests in 13 onshore exploration and production properties and two gas concessions. In Azerbaijan, Zenith Energy entered into a Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) to extract oil from the Muradkhanly, Jafarli and Zardab onshore fields for the next 25 years. It also has an evident understanding of the CAPEX needed to exploit these fields and, in our view, it has adequate assumptions in terms of oil price, production costs and oil production, in order to calculate future cash flows. However, in our opinion, in view of past results in workover and drilling operations in these fields, more conservative assumptions in terms of oil production (barrels per day) could better reflect the mid-term perspective of the company. We consider a fundamental part of the strategy the fact that the company invests in its own drilling equipment. This is highly positive as it has a focus on reducing costs, increasing efficiency and it targets technological development. However, a drawback of this strategy is that the company might incur in high repair or corrective maintenance costs in case of an equipment malfunction. Moreover, the company also has a coherent plan to obtain the needed funding to carry out the investment activities required to achieve the established goals (1 000 bopd expected for 2020 and 3 000 bopd for 2022). Zenith Energy's independently assessed 2P reserves amounted to 30,6 million barrels of oil in Azerbaijan and 16,2 BCF of natural gas in Italy. The company Chapman Petroleum Engineering Ltd. was responsible for preparing the Competent Person Reserve Report (CPR), which last update was done in March 2019. However, given that only 11,8% of the 1P reserves have been developed along with the risk inherent on the oil exploration and extracting activities, forecast production costs, as well as levels of investments needed to extract the proposed level of hydrocarbons could become higher and projected levels of production could be delayed. Also, included in the company's strategy, is the acquisition of assets in other countries in order to increase diversification. Despite this, detailed and suitable producing properties or prospects for these assets are yet to emerge, but we consider the company's intention to pursue geographical diversification as a key strength of its strategy. Finally, Zenith Energy has recently formalized an acquisition proposal to take control of the Norwegian oil and gas company, Nordic Petroleum AS. This acquisition would contribute to expand the company's capital by an amount of around CAD 1,3 m, as Nordic Petroleum AS will have to subscribe almost NOK 14 m in Zenith Energy shares by the end of November 2019. In our view, this acquisition could strengthen Zenith Energy's position mainly in two directions. First of all, the company would have access to a substantial investor base in Norway which is specialized in investing in the oil and gas sector; thus, creating a better and favorable funding environment for the company. Secondly, the acquisition would open the possibility and simplify Zenith Energy's opportunities for acquiring productive assets in Norway in the future. As a result, it would increase Zenith Energy's likelihood of diversifying its operations.

Growth prospects for the company are encouraging. In FY 2019 (March 2019), revenues increased by 31% and, in our conservative scenario, we expect this metric to hike by around 85% as of the end of FY 2020 (March 2020). In respect to reserves, the CPR estimates the level of 1P and 2P reserves to be substantial to generate consistent cash flows in the time span of the REDPSA agreement. Moreover, we view the current reserve life of the company as favorable as we calculate the 1P life to be about 4,5 years while the 2P at around 14 years under the assumption of the company's provided forecast level of production. However, we view the outlook for the development of oil and gas industry as moderate in the mid-term perspective as a result of rising shale production, a slowing global economy and the prospect of a deepening trade war. Even though oil price stagnation could potentially hurt the forecast level of cash flows, we still project positive operating cash flow for FY 2021 (March 2021) in our conservative scenario which accounts for depressed oil prices.

In terms of investments, we recognize that Zenith Energy has an aggressive investment plan in the mid- to long-term horizon representing around 18% of total assets from FY 2019 (March 2019). The investment plan includes deepening and drilling activities as well as a workover program in the Azeri fields, as well as the acquisition of drilling equipment. We considered the plan to be coherent and feasible in terms of execution and sources of funding.

After the level of financial debt increased substantially in FY 2019 (March 2019) due to the issuance of long-term European Medium Term Notes (EMTN) as well as short-term convertible loan in order to finance the Azerbaijan activities, the level of debt recently decreased. As of 24 October 2019, the company announced it had liquidated part of its obligations reducing the level of short-term debt from CAD 3,8 m in FY 1Q 2020 (June 2019), down to CAD 2,1 m by the end of October 2019. We anticipate debt levels to increase as the company is planning to issue debt securities worth around EUR 25 m, which we expect will increase the debt to equity ratio from 1,9% as of FY 1Q 2020 (June 2019) up to 8,1% by the end of FY 2020 (March 2020), still a bearable level. Moreover, all debt currently on the company's balance sheet has fixed interest rates. Even though the current level of debt is not high, it is not covered by EBITDA and FFO as these have not been positive so far. As mentioned previously, we expect operating cash flows to turn positive by FY 2021 (March 2021). However, if this is not the case, it will prove difficult for the company to honor future debt as well as to obtain funds to refinance it as equity issuances will be harder to be successful.

Zenith Energy has a diversified supplier base. Most part of the payables are related to local suppliers in Azerbaijan and Italy and payment terms granted by them are convenient for Zenith Energy. These suppliers have been operating with the company from the date of the beginning of operations in Azerbaijan and Italy. Moreover, the largest creditor in trade and other payables is B Robotics W, the company who provided the BD-260 drilling rig, and accounts for about 7% of total payables. Thus, given the lack of concentration and favorable terms with suppliers, we do not anticipate credit risk materialization in this regard. Moreover, the company has very low dependence on a single creditor. The largest creditor in terms of financial debt accounted for only 0,3% of total liabilities and 34% of total debt as of September 2019. However, the largest liability for the company rests on the level of the consideration payable to SCOAR, which is 98% of total liabilities. Since this liability is tied to the level of production and capital costs, it does not represent a risk for Zenith Energy.

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. Furthermore, Zenith Energy's transparency is outstanding. All the company's relevant information such as, financial as well as general information is clearly and transparently disclosed on its website. The company issues press releases in order to inform the public of all significant activities. Financial statements are made public every quarter and Zenith Energy also publishes information about the board, management, strategy, operations corporate governance, as well as corporate social responsibility. Also, the risk management process in the company is 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. However, the company has no insurance coverage for its main assets.

Diversification of production in terms of geography and type product, as well as source of revenues of Zenith Energy is limited. The company is mainly concentrated on the production of oil as 89% of the revenues are attributed to this product. Even though the company also produces electricity (9,5%), natural gas (1,3%) and natural gas condensate (0,6%), the concentration in oil production will only grow further as the Azerbaijan project continues to develop and the company looks to expand in this sector by acquiring oil assets in other parts of the world. This product structure exposes the company to fluctuations in oil prices. On the other hand, production is currently highly concentrated in Azerbaijan and will remain so in the mid-term horizon. This contributes to the exposure of the company to unexpected interruption in production as a result of regulatory and/or political developments, regional price changes as well as other idiosyncratic factors affecting production in the Azeri fields such as, a revised level of 2P reserves, unexpected increase in production costs or employee strikes. Nevertheless, we expect this factor to improve as the company is planning to acquire additional assets in other geographical regions in the short term. Moreover, revenues from oil sales in Azerbaijan are currently concentrated in one single source: the Marketing and Operations Department of SOCAR (SOCARMO). However, this risk is mitigated by the fact that the company, is free to sell oil without restrictions in Azerbaijan and, in case there is any disruption in the relationship with SOCARMO, Zenith Energy could still comfortably sell the product in the market.

In our view, Zenith Energy is exposed to a moderate currency risk. There is a currency mismatch between revenues and costs. Even though the Central Bank of Azerbaijan (CBA) officially adopted a free float regime, there is still an evidence of Central Bank intervention in order to maintain a peg to the USD. However, the CBA has stablished that as soon as 2020, an actual functioning free float regime will gradually be implemented. Even if this happens, the AZN usually moves together with the price of oil which could create a natural hedge for the company, as Zenith Energy cashes the Azeri oil selling invoices in USD and only the costs are paid in AZN. Despite this, the global presence of the Group results in moderate currency risk as the company engages in operations with GBP, AZN, USD and EUR, while the reporting currency is CAD.

The market position of the company is sluggish; nevertheless, we also recognize that the position and market awareness for the company has developed considerably. Zenith Energy has increased its equity from around CAD 1 m in 2008 to about CAD 600 m by the end of FY 2019 (March 2019), an impressive increase in value for a junior oil company in a relatively short period of time, especially when taking into account the moderate use of capital. Moreover, Zenith Energy enjoys a low cost position, as productions costs are currently at 21 USD per barrel and expected to decline as production increases. Nevertheless, the company has a marginal share of the Azerbaijan oil market as it accounts for 0,05% of the country's 1P reserves and, once it reaches production of 3 000 bpd, we forecast it will have share of around 0,5% of the oil production in the country. Zenith Energy's low market share makes the company vulnerable to competition from other exploration and production companies which have more resources. This specifically could affect further expansion of the company in different geological basins (replacing and increasing reserves). Moreover, the amount of proved developed reserves was only 11,8% of the 1P reserves limiting the current cash flow generating capacity of the company. However, we consider that this is partly mitigated by the contracted 25 year agreement with SOCAR. Moreover, natural gas production in Italy is also favorable. Finally, there is a positive integration as the company owns its own drilling rig.

As of FY 2019 (March 2019), the liquidity stance of the company was not considered as adequate. Current assets do not cover current liabilities as the current liquidity ratio stood at 0,51 while the absolute liquidity ratio was 0,18. This is mainly due to the increasing amount of trade payables related to the rig acquisition, restore, transportation and equipment acquisition from Chinese and Azerbaijani suppliers. Moreover, also resulting from the increase in payables, working capital has been negative and volatile. Nevertheless, we expect these metrics to improve in our mid-term view as the company is set to issue a new multi-currency Euro Medium Term Notes worth around EUR 25 m which will be reflected in a substantial increase in the cash balance. Thus, we anticipate the current liquidity ratio to be above 1 during FY 2020 (March 2020). Even though this issuance will increase liquidity, we do not anticipate cash flow from operations to turn positive until FY 2021 (March 2021). However, 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 is still necessary for Zenith Energy to continue developing reserves.

The net profit for Zenith Energy continues to be negative. This is a result of the high level of production and administrative expenses, even when accounting for non-recurring expenses related to listing costs and share based payments. However, the ratios of production and administrative costs to revenue have been declining showing improvement in the margins of the company while almost half of production expenses relates to workover investments. As of FY 2019 (March 2019), ROE and the EBITDA margin stood at -1,6% and -95,8% respectively. According to our projections, these figures will turn to positive territory by FY 2021 (March 2021) where we anticipate ROE to climb up to 0,9% and the EBITDA margin to around 30,6% in our conservative scenario. In spite of this, both the standalone Azerbaijan and Italy operations posted positive operating cash flows as of FY 1Q 2020 (June 2019).

Finally, Zenith Energy risks incurring in a material breach of the Rehabilitation, Exploration, Development and Production Sharing Agreement (REDPSA) after the company did not "achieve not later than the expiry of two (2) years from the date of SOCAR's approval of the Rehabilitation and Production Programme, being 3 October 2017, an average daily rate of Crude Oil production from the Contract Rehabilitation Area during ninety (90) consecutive days to be one point five (1,5) times the average daily rate of the 2015 Crude Oil Production". The company has committed to reach the required level by the end of FY 1Q 2021 (June 2020). The Agency is also waiting for a confirmation letter where SOCAR acknowledges that it is in accordance with the new proposed deadline.

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

COMPANY PROFILE:

Zenith Energy Ltd. is a company operating in the oil and gas sector registered in Canada but also trading in London and Oslo. The company's main operations are located in Azerbaijan where it operates the largest onshore oil field in the country. Moreover, Zenith Energy also operates and has interests in Italy through gas production and exploration concessions, as well as, production of electricity and condensate.

Related research:

- Sovereign Research Report on Azerbaijan:

  https://raexpert.eu/reports/Research_report_Azerbaijan_08.11.2019.pdf

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Minute's summary:

The rating committee for Zenith Energy Ltd. was held on 11 November 2019. 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 wording of the Press release was amended on 18 February 2020 in order to make it clearer that the Agency commented on the potential impact on Zenith Energy if an acquisition of Nordic Petroleum AS were to occur, and to make it clear the Agency did not imply the acquisition was completed.

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 2019 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.

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.